

March 4, 2012

Fighting Fraud and Promoting Social Equity: a Nonprofit Agenda

As the 2012 elections focus debate on the nation's priorities, it's time for nonprofits to figure out how they can best serve a society increasingly divided over ideology, class, and financial scarcity.

The recent record has not been encouraging. Drastic cutbacks in government aid and the stagnant growth in foundation support have hurt many nonprofits, especially small and medium-size ones. Some groups have been forced to close their doors, while others are trimming programs to the bone. The largest and wealthiest nonprofits got richer, while small charities and grass-roots groups got poorer.

Many of the threats to nonprofits come from within. Fraud and embezzlement cost nonprofits billions of dollars, while compensation packages for CEO's of large organizations remain alarmingly large at a time when other workers face salary freezes and layoffs. Foundation performance has remained lackluster, as have the advocacy efforts of nonprofits in combating cuts in social safety-net programs.

If nonprofits are to play a more vital role in society, here are five things philanthropy and government must do together.

Eliminate theft, fraud, and other scandalous behavior. The prevalence of crime and ethically questionable behavior at nonprofits has eroded public confidence.

Bart Bevers, who regulated nonprofits as Attorney General of Texas, estimates that charities lose \$51-billion a year to thefts from employees and others. That represents a huge chunk of the nearly \$300-billion nonprofits collect annually from private donors.

Other experts have cited less explosive but still worrisome figures.

Nonprofit Imperative, a biweekly newsletter that collects information about nonprofit fraud, estimates that \$27-billion was stolen from nonprofits last year.

Much of the fraud goes unnoticed or is uncovered by journalists, not by the government agencies that should be on the lookout for trouble. That's because neither the Internal Revenue Service nor state

attorneys general have been able to muster the resources or the will to oversee and police nonprofits aggressively.

It's time for Congress to take action and provide the regulators with the money and authority they need to crack down on nonprofit abuses. And nonprofits themselves must step up actions to protect their assets from abuse.

Make CEO pay more reasonable. Nonprofit chief executives continue to earn high sums, even at organizations that have had to cut their programs, lay off staff members, and scrap pay increases and benefits.

A typical private-college leader made 3.7 times as much as the average full professor on his or her campus in 2009, according to *The Chronicle of Higher Education*, and more than three dozen chief executives made more than \$1-million.

This comes at a time when tuition is high and a paucity of scholarship aid makes it impossible for many young people to afford higher education.

Nonprofit hospitals also pay their executives extraordinarily well at a time when they do little to provide care for the poor. Local studies by newspapers have identified scores of hospital chief executives who make \$1-million or more.

The same excessive compensation characterizes large foundations, health charities, and big social-service organizations.

Such high salaries are in part the fault of the IRS, which has been too vague about what level of pay is acceptable and too unwilling to penalize organizations that pay overly generous salaries. States have shown some interest in cracking down, and bills have been floated in several places to cap nonprofit salaries.

But this is not just the responsibility of government. Nonprofit boards need to stop approving such high pay at a time when money is so scarce and seek greater equity in pay among all workers.

Encourage donors to do more for the needy. Despite the desperate need by nonprofits to attract private aid to make up for the loss of government funds, foundations have not responded.

Wealthy individuals are not doing much better. As *The Chronicle of Philanthropy's* ranking of the 50 top donors of 2011 showed, most of the superrich give to colleges, hospitals, and the arts, leaving very little for other nonprofits.

The giving patterns of both foundations and wealthy individual donors will continue to widen the gap between small grass-roots groups and big wealthy organizations. Witness the closing this winter of the venerable Hull House in Chicago, which was founded more than a century ago by Jane Addams. Not one of the city's wealthiest residents came to the rescue of this vital institution when it faced dire financial problems.

Nonprofit coalitions like Independent Sector and the National Council of Nonprofits should devote more energy to putting pressure on foundations and other donors to give more to organizations that serve people hit by hard financial times.

Strengthen White House support. The Obama administration has given lip service to the importance of nonprofits in a shrinking economy, but it has done no better than to hold a few meaningless conferences and establish a \$50-million innovation fund that has proved neither innovative nor productive.

A major part of the problem is that few White House staff members understand the needs of nonprofits. Their primary focus has been on entrepreneurial programs that form only a tiny segment of the nonprofit world.

One of the purposes of the Social Innovation Fund was to persuade more foundations to invest in promising nonprofit programs.

If the administration had really wanted to boost philanthropic giving, it should have used its bully pulpit to encourage foundations to spend more and urged Congress to force greater giving by increasing the minimum share of assets grant makers must distribute.

The recent appointment of Cecilia Munoz, former vice president for the National Council of La Raza, as director of the White House Domestic Policy Council is an encouraging sign of change. Putting a person who understands grass-roots and advocacy groups in a role of power is a big step forward for the Obama administration.

Invigorate nonprofit advocacy. Nonprofit coalitions have been fighting hard to protect the charitable deduction despite little evidence that more than a billion dollars might be lost by the changes President Obama has proposed.

By contrast, leading nonprofit groups have done little or nothing to protect vital social and economic programs that have been put at great risk as Congress grapples with ways to rein in the deficit. Many nonprofit coalitions seemed more concerned with their narrow self-interest and greed than in the national interest.

Progressive groups must especially take steps to be more forceful in holding the Obama administration accountable for its social and economic policies, but programs that help low-income people should be a priority for all major social-service, health, environmental, and social-justice organizations.

Issues of poverty cannot be separated from cancer or heart disease, from housing or urban development, from environmental problems or questions of education. They are all related. Defense of the social safety net, if it is to be successful, can only be achieved by broad coalitions working on national issues beyond the narrow missions of their member groups.

To meet these big challenges, nonprofits need leadership.

Now that Gara LaMarche has left as chief executive of Atlantic Philanthropies and Paul Brest has announced his retirement as head of the William and Flora Hewlett Foundation, the foundation world has no visible leaders who can speak to the values and needs of its institutions. The same void in leadership can also be found at big nonprofits. Few heads of nonprofits seem to have a vision and commitment beyond the self-interests of their own organizations.

The shaky state of the economy and lack of funds have unsettled nonprofit workers. A recent survey by *The Chronicle* found that a large majority of nonprofit employees were unhappy with their jobs, eager to leave them to seek new employment opportunities. As Paul Light, a scholar at New York University put it, “there is an anxiety in the sector that is palpable. This is a beleaguered work force. They are wondering what the future is going to look like, and they’re right to wonder.”

To meet the challenges ahead, the nonprofit world must develop the leadership that can calm and energize its work force, forcefully lead its advocacy and coalition activities, clean up the scandals, and hold government and politicians accountable.

Nonprofits have the potential to meet these challenges. The big question is whether they have the will.

Pablo Eisenberg, a regular Chronicle contributor, is a senior fellow at the Georgetown Public Policy Institute. His e-mail address is pseisenberg@verizon.net.