



**U.S. House of Representatives
Committee on Oversight and Government Reform
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2154 Rayburn House Office Building**

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Assessing Veterans' Charities

Good Morning, Chairman Waxman and distinguished members of the U. S. House of Representatives Committee on Oversight and Reform.

On behalf of the Pennsylvania Governor Edward G. Rendell and Secretary of the Commonwealth Pedro A. Cortés, I thank you for the opportunity to be present before you today and for your leadership on this important issue.

My name is Tracy McCurdy and I am the Director of the Pennsylvania Department of State's Bureau of Charitable Organizations (Bureau).

In Pennsylvania, the Solicitation of Funds for Charitable Purposes Act (ACT), the charitable solicitation law, requires organizations, professional solicitors and professional

fundraising counsels that are soliciting charitable contributions in the Commonwealth to be registered with the Department, unless they are otherwise excluded or exempt. For example, organizations that raise less than \$25,000 in gross contributions annually do not need to register, unless the group pays someone to conduct solicitations.

The Department currently maintains registration and financial information for more than 10,000 charities and 400 professional solicitors and fundraising counsels soliciting charitable contributions in Pennsylvania. Included among those registered organizations are veterans groups. According to the National Center for Charitable Statistics, there are 2,514 military and veterans' organizations located in Pennsylvania.

The Secretary of the Commonwealth annually prepares a report on the number of registered charities, the number of charities ordered to cease and desist solicitation, the number of charities contracting with professional solicitors and the compensation of professional solicitors for each solicitation campaign in relation to the funds raised and administrative costs. A copy of the report is available on the Department's Web site (www.dos.state.pa.us).

Relevant to the Committee's discussion is the portion of this year's annual report that highlights the average amounts paid by charitable organizations to professional solicitors. Although there is no legal standard defining the permissible amount of fundraising costs, it is generally acknowledged that on average, charitable organizations should spend no more than 33-1/3% of its contributions on the costs to raise those contributions.

Based upon campaign financial reports submitted by professional solicitors in Pennsylvania, the annual report details that 88% of the charities, on whose behalf campaign financial reports were filed, paid higher than the 33-1/3% standard, with 54% paying more than double the standard. Given this data, the Pennsylvania Department of State is keenly aware of the issue of the high fundraising costs being paid by charitable organizations that use the services of professional solicitors.

In addition to registration and annual reporting duties, the Act gives the Department the power to investigate allegations of wrongdoing by organizations soliciting charitable contributions in Pennsylvania.

Generally, as a question arises involving fundraising issues, the Department, through its Bureau's investigation and audit divisions, assiduously investigates the following matters:

- Unregistered activity (professional or charity)
- Failing to file contracts
- Failing to file campaign financial reports
- Failing to provide required disclosures
- Making false and/or misleading statements in solicitations
- Making false and/or misleading statements in reports filed with the Bureau
- Fraudulent transactions-charitable donations for personal use

Please note however that the U. S. Supreme Court Case *Illinois ex rel. Madigan, Attorney General of Illinois v. Telemarketing Associations, Inc., et al.* held that high fundraising costs alone do not establish fraud. As a result of this case, the Department cannot pursue an investigation solely on the basis of high fundraising costs.

What the Department can—and does—do is engage in public awareness efforts to promote informed charitable giving. The Department uses a variety of outreach tools to educate consumers about making smart donation decisions. Available on our Web site is a wealth of consumer information, including tips for charitable giving as well as information about dealing with professional solicitors. In addition, Department staff routinely participates in senior expos, consumer fairs and other educational forums. Consumers are encouraged to call the Department's Bureau to learn more information or file a complaint about a charity, professional solicitor or fundraising counsel.

The most important tip that the Department routinely conveys to consumers is to ask questions—question everything. If consumers want to know how an organization is spending its money—ask. If consumers are not happy with the answer, they should not give to that group! There are many other worthy organizations in need of charitable contributions.

To ensure that Americans' contributions to veterans' causes are being responsibly used, the Department offers three recommendations.

1. Increase efforts in public outreach and education.

Consumers need to be educated to ask questions—to ask for information about the charity—specifically, how it spends its money and, most importantly, how it spends its money on its charitable purpose and programs versus fundraising and administrative costs.

2. Require increased oral and written disclosures at the point of solicitation.

Professional fundraisers should be required to tell the potential donors that a portion of contributions will be used to pay for the services of the professional fundraiser. The disclosure should also include the minimum amount of contributions guaranteed to be retained by the charity, as it was provided in the contract submitted to the state in which the solicitation is occurring. Disclosure of charitable finances, fundraising expenses, administrative costs, efficiencies and successful mission outcomes to the public, will provide the kind of Accountability and transparency of charities that increases knowledgable giving.

3. Increase federal oversight by the Federal Trade Commission, or another federal agency deemed appropriate.

Professional fundraisers should be required to submit annual reports disclosing their fundraising activities—detailing the charities for whom campaigns were conducted, the amount of contributions received in each campaign, the actual expenses of each campaign and the amount of contributions actually received by the charity.

In conclusion, a majority of charities are honest and provide valuable services for many of the most needy and vulnerable in our society, including some of our veterans. The Department encourages the public to provide donations to charitable causes. The key message that consumers should remember from this testimony is that whenever they wish to donate to a charitable organization, they should become informed about the charity's operations by doing some homework. More specifically, they should research the charity to determine if the majority of the money raised is going to its charitable purposes.

Once again, Governor Rendell and Secretary of State Cortés thank you for providing me the opportunity to appear before you today. I welcome any questions you have at this time.