

****Preliminary Transcript****

**STENOGRAPHIC MINUTES
Unrevised and Unedited
Not for Quotation or
Duplication**

HEARING ON ASSESSING VETERANS' CHARITIES

Thursday, December 13, 2007

House of Representatives,

Committee on Oversight and

Government Reform,

Washington, D.C.

"This is a preliminary transcript of a Committee Hearing. It has not yet been subject to a review process to ensure that the statements within are appropriately attributed to the witness or member of Congress who made them, to determine whether there are any inconsistencies between the statements within and what was actually said at the proceeding, or to make any other corrections to ensure the accuracy of the record."

Committee Hearings

of the

U.S. HOUSE OF REPRESENTATIVES



**OFFICE OF THE CLERK
Office of Official Reporters**

1 Court Reporting Services, Inc.

2 HGO347000

3 HEARING ON ASSESSING VETERANS' CHARITIES

4 Thursday, December 13, 2007

5 House of Representatives,

6 Committee on Oversight and

7 Government Reform,

8 Washington, D.C.

9 The committee met, pursuant to call, at 10:00 a.m., in
10 Room 2154, Rayburn House Office Building, the Honorable Henry
11 A. Waxman [chairman of the committee] presiding.

12 Present: Representatives Waxman, Cummings, Kucinich,
13 Tierney, Watson, Higgins, Yarmuth, Braley, Norton, Van
14 Hollen, Hodes, Sarbanes, Welch, Davis of Virginia, Burton,
15 Shays, Platts, Cannon, Turner, Issa, Foxx and Sali.

16 Staff Present: Phil Schiliro, Chief of Staff; Phil
17 Barnett, Staff Director and General Counsel; Karen Lightfoot,
18 Communications Director and Senior Policy Advisor; David
19 Rapallo, Chief Investigative Counsel; John Williams, Deputy
20 Chief Investigative Counsel; Suzanne Renaud, Counsel; Susanne

21 | Sachsman, Counsel; Daniel Davis, Professional Staff Member;
22 | Earley Green, Chief Clerk; Teresa Coufal, Deputy Clerk; Ella
23 | Hoffman, Press Assistant; Leneal Scott, Information Systems
24 | Manager; David Marin, Minority Staff Director; Larry
25 | Halloran, Minority Deputy Staff Director; Keith Ausbrook,
26 | Minority General Counsel; Grace Washbourne, Minority Senior
27 | Professional Staff Member; Todd Greenwood, Minority
28 | Legislative Assistant; Nick Palarino, Minority Senior
29 | Investigator and Policy Advisor; Patrick Lyden, Minority
30 | Parliamentarian and Member Services Coordinator; Brian
31 | McNicoll, Minority Communications Director; Ali Ahmad,
32 | Minority Deputy Press Secretary; and John Ohly, Minority
33 | Staff Assistant.

34 Chairman WAXMAN. The Committee will please come to
35 order.

36 This morning's hearing is about deceit and a sickening
37 betrayal of our most fundamental values, and I hope it is the
38 first step in fixing an intolerable fraud.

39 I think many Americans are beginning to understand the
40 incredible sacrifice our troops are making in Iraq and
41 Afghanistan. Over 4,000 American soldiers have been killed.
42 Thousands more are coming home with terrible physical and
43 psychological injuries.

44 But few of us understand that these deaths and injuries
45 often leave families with crippling financial burdens. We
46 assume that Government will provide the services, the
47 benefits and support that our soldiers earn through their
48 selfless sacrifice. Too often, that is an illusion, not a
49 reality.

50 Many charities are trying to provide the missing
51 support, and this is the time of year when families receive
52 all kinds of charitable solicitations in the mail, over the
53 phone and from people knocking on our doors, and nothing is
54 more compelling than a charity dedicated to helping our
55 troops and our veterans.

56 Many of these groups do heroic work. We are fortunate
57 that one of these groups, TAPS, is with us today, and I want
58 to encourage the American people to be generous in supporting

59 | these charities.

60 | But our Committee has learned that a disturbing number
61 | of groups are raising millions of dollars in the name of
62 | helping veterans but keeping most of the donations for
63 | themselves. Instead of using the money to provide financial
64 | assistance or help veterans obtain care, these groups and the
65 | professional fundraisers they employ blatantly line their own
66 | pockets. They betray their donors and the troops who
67 | desperately need help.

68 | In some cases, these organizations spend as much as 90
69 | percent of the donations they receive on fundraising
70 | activities rather than helping veterans. In some cases, the
71 | executives pay themselves over half a million, \$500,000, a
72 | year.

73 | In some cases, they jump from State to State, trying to
74 | stay one step ahead of State regulators. If Pennsylvania
75 | catches them using deceptive fundraising tactics, they close
76 | up shop and start again in Iowa, and all the while they are
77 | deceiving well intentioned donors and denying veterans the
78 | help they need.

79 | We are honored that Ed Edmundson, whose son, Eric, was
80 | severely injured in Iraq in 2005, is here to give us a
81 | firsthand account of the challenges that families face, and
82 | thank you for being here. To deal with Eric's injuries, Mr.
83 | Edmundson quit his job and is devoting himself full time to

84 | his son's care.

85 | I also welcome our other witnesses. Your testimony will
86 | provide the Committee with a wide range of perspectives. I
87 | know some of you did not want to be here today, but you
88 | recognized your obligation to respond to our questions.

89 | I want to say a few words about a witness who is not
90 | here today. Roger Chapin has a long history of establishing
91 | veterans' charities dating back to the Vietnam War.
92 | Currently, he is operating a number of charities focused on
93 | veterans from Iraq and Afghanistan.

94 | There have been serious allegations against Mr. Chapin,
95 | including allegations that he is paying exorbitant salaries
96 | to himself and his wife, using donations to pay for
97 | questionable expenses such as new condos, shifting funds
98 | among his various groups to skew reporting numbers and
99 | concealing millions of dollars in payments to for-profit
100 | fundraising corporations.

101 | Mr. Chapin not only refused to testify voluntarily
102 | today, but he refused to allow his attorney to receive the
103 | subpoena our Committee issued to him. For the last week, Mr.
104 | Chapin has gone into hiding and evaded the best efforts of
105 | the U.S. Marshals trying to serve him.

106 | Mr. Chapin's charities have raised over \$98 million last
107 | year, yet he refused to appear to answer questions about how
108 | this money was spent. I suppose he figured if he could hide

109 | from the Marshal for a few days, he could avoid this hearing.

110 | Mr. Chapin will not be here today, but he will be at a
111 | second hearing that we are going to call on January 17, 2008.

112 | The Committee is issuing a new subpoena for Mr. Chapin, and
113 | we are sending it directly to the U.S. Marshals to serve Mr.
114 | Chapin.

115 | I ask unanimous consent that the Committee's letter to
116 | him be made part of the record and, without objection, that
117 | will be the order.

118 | [The referenced material follows:]

119 | ***** COMMITTEE INSERT *****

120 Chairman WAXMAN. I want to thank Mr. Davis and his staff
121 for their cooperation in this investigation. This is a
122 genuine bipartisan investigation. They have been champions
123 of the interests of veterans, and this Committee is grateful
124 for their efforts.

125 I think all members today share my outrage as how our
126 veterans have been treated and how those who have donated
127 money to help them have been betrayed.

128 I want to recognize Mr. Davis for an opening statement.

129 [Prepared statement of Chairman Waxman follows:]

130 ***** COMMITTEE INSERT *****

131 Mr. DAVIS OF VIRGINIA. Thank you, Mr. Chairman, for
132 holding this hearing today as we continue to focus on issues
133 affecting the brave men and women who serve our Country.

134 We are joined in this mission by the American people.
135 Public support for our troops is overwhelming, and our fellow
136 citizens generously give their money, time and prayers to
137 those who defend our freedom.

138 Much of that support is channeled through private
139 charities. Today, we take the time to evaluate some of these
140 organizations and ask some appropriately tough questions.

141 We all want to believe that money donated to a charity
142 is used wisely. We put our faith in what we assume to be the
143 good faith of others, but charities do not always perform as
144 we hope. With some heartlessly capitalizing on broad public
145 support for veterans to engage in wasteful or even fraudulent
146 fundraising and management practices.

147 Today, we will hear testimony to help guide us in
148 evaluating the efficiency, accountability and governance of
149 charitable organizations. We will hear from various watchdog
150 groups whose role is to oversee the charitable community and
151 provide donors with the objective facts they need to make
152 informed decisions about where to best direct their
153 contributions.

154 Now, Congress has visited this issue before. In 2004, a
155 panel on the non-profit sector, convened at the impetus of

156 | the Senate Finance Committee, brought together a broad
157 | cross-section of those involved in charities and foundations
158 | for a thorough examination of non-profit governance,
159 | transparency and ethical standards.

160 | The panel's conclusions emphasized that a vibrant
161 | charitable sector must remain independent to be effective,
162 | recognizing that the First Amendment demands charities be
163 | given wide latitude in the exercise of fundamental associated
164 | freedoms, but the panel also found Government oversight and
165 | regulation necessary to deter abuse, misrepresentation and
166 | fraud.

167 | We build on those important findings today because a new
168 | generation of veterans and their families, suffering the
169 | acute and latent traumas of modern warfare, are looking to
170 | charities for help and they are looking to us to help them
171 | know which organizations are really trying to help veterans
172 | and which organizations are just helping themselves.

173 | There is no easy test, no magic ratio of program
174 | expenditures to fundraising costs that automatically
175 | distinguishes good charities from bad ones. Some start-ups
176 | for marginalized or unpopular causes may have to spend 50, 60
177 | or 70 percent of their revenue on outreach, education and
178 | fundraising for a while.

179 | But charities that consistently spend up to 90 percent
180 | gross donation revenue on overhead, with only a trickle of

181 | the remainder going for token program grants, just don't pass
182 | the smell test. Those charities are soaking up funds meant
183 | to help veterans, and badly managed or abusive operations
184 | merit close scrutiny by local and State regulators, State and
185 | Federal tax authorities and Congress.

186 | Particularly during this holiday season with holiday joy
187 | and sharing, Americans are unmatched in their generosity and
188 | willingness to help those in need. We owe it to those
189 | generous donors and the veterans they want to thank to make
190 | sure charities operate as faithful and efficient stewards of
191 | the money that they collect. Testimony by today's witnesses
192 | will help us do that important job.

193 | Again, Mr. Chairman, than you for convening this hearing
194 | and your leadership on this issue.

195 | [Prepared statement of Mr. Davis of Virginia follows:]

196 | ***** COMMITTEE INSERT *****

197 Chairman WAXMAN. Thank you very much, Mr. Davis.

198 I know many members have been active on this issue, and
199 I want to recognize any member who wishes to make an opening
200 statement.

201 Let me see if anybody does. Mr. Tierney, no.

202 Ms. Watson, do you wish to make an opening statement.

203 Ms. WATSON. No, I will concede my time to you, Mr.

204 Chairman.

205 Chairman WAXMAN. Okay, thanks.

206 Mr. Shays, I know that you do.

207 Mr. SHAYS. Thank you, Mr. Chairman. I am eager to make
208 a statement, and I thank you for this hearing, a very
209 important hearing.

210 In 1625, sir, Francis Bacon proclaimed, "In charity,
211 there is no excess." The American people certainly agree as
212 U.S. charitable giving in the United States reached a record
213 of almost \$300 billion in 2006.

214 Unfortunately, at today's hearing, we will learn there
215 can be egregious excess of a different kind. Many
216 self-proclaimed charities are collecting funds on behalf of
217 our Nation's valiant veterans only to devote a small amount
218 to actual services for veterans and their families. While
219 this is not a crime, it is an outrage we must correct.

220 As in past wars, the Global War on Terror has inspired
221 the American people to open their giving hearts to support

222 | returning soldiers. Since 2001, contributions to military
223 | and veterans' charities have increased by almost half a
224 | billion dollars, totaling \$2.48 billion in 2007. Implicit in
225 | these generous donations is the assumption that most, if not
226 | all, of the funds are going toward actually helping veterans.

227 | Recent reports from five private sector charity
228 | watchdogs have exposed many charities devote less 35 percent
229 | of the money they raise to actual veterans' services. In one
230 | particular case, the American Veterans Relief Foundation of
231 | Santa Ana, California, raised \$3.6 million of which only
232 | \$21,000 was ever directed to veterans' grants and assistance.
233 | That is less than 1 percent of the donations.

234 | And, as we will find out today, behind some of these
235 | charities are telemarketing and mass mailing businesses whose
236 | contracts with charities allow them to keep up to 90 percent
237 | of what is raised. While these practices may be technically
238 | legal, they are clearly immoral.

239 | I am looking forward to hearing more about the state of
240 | the veterans' charities from two of our Country's top charity
241 | oversight groups, the Better Business Bureau's Wise Giving
242 | Alliance and the American Institute for Philanthropy.

243 | I recognize through continuous rulings, the Supreme
244 | Court has limited executive and legislative power to regulate
245 | charitable giving and that much of the existing oversight
246 | power lies at the State level. I look forward to hearing

247 | from the Bureau of Charitable Organizations' representative
248 | from the State of Pennsylvania as Pennsylvania has done some
249 | of the most aggressive charity oversight in the Nation. We
250 | need to encourage more States to do what Pennsylvania is
251 | doing.

252 | At the Federal level, we should examine whether the
253 | Internal Revenue Service, IRS, or the Federal Trade
254 | Commission, FTC, should do more and what laws can be changed
255 | to stop this outrage.

256 | Thank you, Mr. Chairman.

257 | [Prepared statement of Mr. Shays follows:]

258 | ***** COMMITTEE INSERT *****

259 Chairman WAXMAN. Thank you very much, Mr. Shays.
260 Does any other member wish to make an opening statement?

261 Mr. Issa.

262 Mr. ISSA. Thank you, Mr. Chairman, and I will be brief.

263 I appreciate the fact that you are holding this very
264 bipartisan Committee hearing at this time of year. As many
265 of us are contemplating a donation to charitable
266 organizations, it is important to ensure we can give with
267 confidence and that our contributions will help someone in
268 need.

269 In preparation for today's hearing, I, perhaps like
270 other members, had to scrutinize the list of charities that
271 will be discussed today against those I had given. Even
272 though we do endeavor to look and to get to the bottom of
273 what the ratio of contributions to overhead to recipients
274 receiving are, it is certainly possible for any of us to find
275 ourselves giving to a charity that is less than reputable.

276 Although I hope that we will not look into legitimate
277 costs of fundraising because often a direct mail campaign,
278 which can be quite expensive, does two things: it raises
279 money for a cause and it also educates.

280 It is clear that today the examples that we will see do
281 not fall into that category. They fall into the category of
282 what I would call profiteering, profiteering by those who use
283 the name of a soldier or a cause in order to justify

284 fundraising that ultimately leads to profits for individuals
285 who may or may not be veterans, may or may not have any need,
286 may simply be good at fundraising.

287 I join with my colleagues on both sides of the aisle,
288 saying that although we have limited jurisdiction, it is
289 clear that on half a billion dollars of tax-deductible
290 donations, we certainly give a great deal of what one might
291 call matching funds. I have no objections to that tax
292 deductibility, but it is very clear that if we can help
293 educate the consumer to give more wisely, then the dollars of
294 tax deductibility that the Federal Government effectively
295 matches with the donor will be better spent.

296 Therefore, I appreciate your holding this hearing and
297 hope that we all view that it is not only the individual's
298 money that is being squandered but the matching
299 tax-deductible portion, thus Federal taxpayers' dollars that
300 are going into the hands, at times, of profiteers.

301 With that, I yield back.

302 [Prepared statement of Mr. Issa follows:]

303 ***** COMMITTEE INSERT *****

304 Chairman WAXMAN. Thank you, Mr. Issa.

305 Any other member wish to make an opening statement?

306 Yes, the gentlelady from D.C.

307 Ms. NORTON. I appreciate this hearing, particularly the
308 timing of this hearing, Mr. Chairman, because it is the end
309 of the year when even people of modest income, like members
310 of Congress, give end of the year contributions.

311 I would wager that as the American people sit down and
312 see our frustration in trying to bring the troops home, one
313 of the things that might trump all the charitable giving
314 might be anything that looks like it would help or give to
315 the military or, for that matter, Mr. Chairman, to their
316 families.

317 I think we have to understand who the military is. The
318 military is under the exclusive direction of the United
319 States Government, but they can become a market, and we have
320 an obligation to see that they are not simply a market.

321 Even for Federal employees, the Combined Federal
322 Campaign provides you with a book. You go through that book,
323 and frankly I take the time to go through the book because
324 there is an enormous difference in the amount spent that goes
325 directly to the charity. So, if you quickly go through it,
326 you can eliminate many charities simply by saying, do I
327 really want to give that much to their overhead or to
328 wherever they put it.

329 I think we owe our military at least that much, set some
330 standards and the way to find out what kind of standards to
331 set is to have precisely the kind of hearing that you are
332 having, Mr. Chairman, this morning, and I thank you for it.

333 [Prepared statement of Ms. Norton follows:]

334 ***** COMMITTEE INSERT *****

335 Chairman WAXMAN. Thank you.

336 Any other member wish to make an opening statement?

337 Mr. Shays.

338 Mr. SHAYS. Thank you, Mr. Chairman.

339 I would like to put on the record you caught my
340 attention when you mentioned Phil Chapin from Darien. That
341 is the very center of my district and where I grew up. I
342 just called up my staff because I want to make sure this man
343 has not contributed to my campaign and want to put on the
344 record he hasn't, but there is also another individual
345 connected, Phil Craft, as well, though who has not
346 contributed to my campaign.

347 I also would like to put on the record a letter we wrote
348 on May 2nd, 2006. Mayor Koch had alerted me to the fact that
349 there was a quote that they had used of mine in 1988 that
350 they were using, and we wrote them in 2006 and said, don't
351 use that quote. They were using a quote of Mayor Koch's, and
352 they were also using a quote from the Attorney General of the
353 State of Connecticut, Dick Blumenthal. So I would like to
354 put that on the record if I might.

355 Chairman WAXMAN. Without objection, we will receive that
356 for the record and to protect Mr. Phil Chapin, I want to
357 indicate it is Roger Chapin.

358 Mr. SHAYS. It is Roger Chapin and Phil Craft, yes. Thank
359 you.

360 Chairman WAXMAN. Okay. Good.

361 [The referenced material follows:]

362 ***** COMMITTEE INSERT *****

363 Chairman WAXMAN. Any other statements?

364 If not, we will proceed to the witnesses.

365 I want to welcome today Mr. Edmundson, Ed Edmundson, who
366 is the father of the wounded veteran that I mentioned
367 earlier, and Ms. Tracy L. McCurdy, Director of the Bureau of
368 Charitable Organizations for the Commonwealth of
369 Pennsylvania. Senator Chuck Grassley will join us when he is
370 able to complete the vote on the Senate floor, but he is
371 anxious to participate and give us the benefit of his work on
372 this area.

373 Mr. Edmundson, why don't we start with you? Thank you
374 again for being here.

375 Oh, let me indicate the rules of the Committee do
376 require all witnesses to testify under oath. So if both of
377 you would please stand and raise your right hand, I would
378 appreciate it.

379 [Witnesses sworn.]

380 Chairman WAXMAN. Let me indicate for the record that the
381 witnesses answered in the affirmative.

382 Your prepared statement will be in the record in its
383 entirety.

384 We would like to ask you, if you could, to keep as close
385 as you can to the five minutes. We will have a clock that
386 will be running. It will be green. It will turn yellow when
387 there is one minute left. It will turn red when the five

388 | minutes is up. If you still need a little bit more time,
389 | just go ahead, don't worry about it, but we would like to try
390 | to keep it in the five minute period.

391 | Mr. Edmundson, there is a button on the base of the mic.
392 | Be sure it is pressed in and pull it close enough to you that
393 | we can hear.

394 | STATEMENTS OF EDGAR EDMUNDSON, FATHER OF SERGEANT ERIC
395 | EDMUNDSON, A WOUNDED VETERAN; TRACY L. MCCURDY, DIRECTOR,
396 | BUREAU OF CHARITABLE ORGANIZATIONS FOR THE COMMONWEALTH OF
397 | PENNSYLVANIA

398 | STATEMENT OF EDGAR EDMUNDSON

399 | Mr. EDMUNDSON. Mr. Chairman, Committee members, a
400 | heartfelt thank you for allowing me to appear before you and
401 | participate in this discussion.

402 | My name is Edgar Edmundson. I am here today, speaking
403 | for all of Eric's family in regards to our experiences with
404 | our soldier, Sergeant Eric Edmundson, U.S. Army Retired after
405 | seven years of service.

406 | Today, I will be telling you about my son and his
407 | injuries along with the many issues and obstacles that he and
408 | the family have confronted and overcome. I will also share
409 | with you the utilization of non-profit organizations and
410 | their role in my son's rehabilitative outcome.

411 | My son, Sergeant Eric Edmundson, was a Cavalry Scout
412 | with the 4th Squadron, 14th Cavalry based out of Fort
413 | Wainwright Air Base, Alaska. He was assigned to be the
414 | company commander's driver. This is a position that he took

415 | very seriously and pushed forward to excel in. He took pride
416 | with having the finest running, best driven vehicle in the
417 | company.

418 | On October 2nd, 2005, near the Syrian border along the
419 | Tigris River in northern Iraq, my son was driving the command
420 | vehicle, a Stryker. While advancing through a dry river bed
421 | to support another disabled vehicle, an insurgent detonated
422 | an improved explosive device, better known in this war on
423 | terror as an IED, which detonated directly behind my son's
424 | seat. At that instant, my son's life and the lives of his
425 | family changed forever.

426 | Eric, having suffered severe blast and shrapnel injuries
427 | as well as a moderate traumatic brain injury or TBI, was
428 | airlifted to Baghdad where he underwent a number of
429 | surgeries. He was then moved to Ballad to await exit to
430 | Germany. While there, the doctors were performing a surgical
431 | procedure, and my son suffered a cardiac arrest.

432 | We were told it took a great deal of time to bring him
433 | back, and now he suffers from an anoxic brain injury or ABI.
434 | This condition is from a lack of oxygen to the brain. After
435 | two days in Germany, Eric was transferred to Walter Reed
436 | Medical Center in Washington, D.C.

437 | We knew that Eric would be facing challenges that we
438 | would never have dreamt possible. We knew our son. We knew
439 | he needed us.

440 Because of his anoxic brain injury, he was left with
441 cognitive and memory issues, suffers from muscle contractures
442 and toning that plague him. A Baclofen pump was placed in
443 his abdomen in January, 2007, to aid him in controlling the
444 contractures.

445 It became apparent early in Eric's recovery that he
446 would need a caregiver-advocate to watch out for his well
447 being. At that time, my wife and I made the decision to
448 resign my position at work in order to be with Eric.

449 Non-profit organizations became an answer to our
450 prayers. As I stated earlier, I resigned my position to be
451 available for Eric and his needs. That resignation came at
452 the cost of my income, retirement, insurance and our previous
453 way of life. It was a decision that we made as a family, and
454 we do not regret it.

455 Non-profit organizations helped fill the gap in what we
456 lost financially. They also relieved extreme stressors. We
457 needed to devote so much of our time to Eric's needs, dealing
458 with how to get our financial obligations met was difficult
459 and an additional stress.

460 We feel very strongly that Eric's recovery and
461 rehabilitative outcomes would have been different had it not
462 been for the support we received from non-profit
463 organizations. Eric needed his family close by. He needed
464 the reassurance of someone was going to be there for him and

465 | aid him in going through this journey of recovery.

466 | Per our conversations with non-profit organizations,
467 | they recognized the need. They see themselves as being able
468 | to meet needs.

469 | Most have some connection with the military and
470 | understand how slow the Government takes to address issues,
471 | but in the meantime real life continues to tick along. It is
472 | our experience that they connect quickly and efficiently.

473 | It may not seem like much, but even simple little things
474 | like meals, lodging for extended family, laptop computers to
475 | cell phones are critical when dealing with the recovery of a
476 | wounded soldier. These little incidentals are so imperative
477 | to a soldier and his family's recovery because they allow
478 | them to stay connected to the world.

479 | I have listed only a few ways in which non-profits have
480 | come to our aid. I am certain there are many more.

481 | Salute, Incorporated out of Chicago, Illinois, Wounded
482 | Warrior Project out of Florida; Hope for the Warriors out of
483 | Jacksonville, North Carolina; and the Semper Fi Fund are just
484 | a few examples of fine organizations that have kept true to
485 | their mission.

486 | What is important at this time is that non-profits be
487 | utilized to their full potential.

488 | I would hate to think what Eric and his family would
489 | have experienced throughout these last two years without the

490 non-profits by our side. We made the commitment to be there
491 for our son, and that commitment would have been met no
492 matter what. With the help of non-profits, we have been able
493 to be there for Eric.

494 Eric was a good soldier. He honored himself, his
495 family, his community and his Country. We owe it to him and
496 the thousands of other soldiers that honor themselves and us
497 all to provide the best available care to enable them to
498 return to the life they fought so hard to defend.

499 I am concerned, the negative effect that the few
500 self-serving non-profits will have on the ability of the
501 legitimate non-profits to obtain funding from the general
502 public. It would be an unfortunate turn of events if the
503 service they provide is not available. As I have shared, the
504 service they provide is immediate and personalized to the
505 needs of the soldiers and their families. I believe that
506 measures need to be implemented to ensure the availability of
507 non-profits and their services.

508 It is my sincere hope that by sharing our story, you
509 will have a glimpse into why we need to continue to support
510 the non-profit agencies and the service they provide.

511 Thank you for allowing me to share our story with you
512 today. I am open for any questions.

513 [Prepared statement of Mr. Edmundson follows:]

514 ***** INSERT *****

515 Chairman WAXMAN. Thank you very much, Mr. Edmundson, for
516 being here and for that presentation to our Committee in
517 helping us understand more about the issue that we are
518 dealing with today.

519 I am going to have some questions, others will as well.
520 But we want to hear from Ms. McCurdy, and then we will ask
521 both of you, questions.

522 Ms. McCurdy.

523 | STATEMENT OF TRACY L. MCCURDY

524 | Ms. MCCURDY. Thank you. I must first just say thank you
525 | to Mr. Edmundson and also what a moving story.

526 | Good morning, Chairman Waxman and distinguished members
527 | of the Committee on Oversight and Reform. On behalf of the
528 | Pennsylvania Governor Edward G. Rendell and Secretary of the
529 | Commonwealth, Pedro A. Cortes, I thank you for the
530 | opportunity to be present before you today and for your
531 | leadership on this important issue.

532 | My name is Tracy McCurdy, and I am the Director for the
533 | Pennsylvania Department of State's Bureau of Charitable
534 | Organizations.

535 | In Pennsylvania, the charitable solicitation law
536 | requires charities, professional solicitors and professional
537 | fundraising counsels that are soliciting charitable
538 | contributions in Pennsylvania to be registered with the
539 | Department unless otherwise excluded or exempt. By way of an
540 | example, an exempt organization would be one that raises less
541 | than \$25,000 in gross annual contributions. Unless they pay
542 | someone to solicit, then they would have to be registered.

543 | The Department currently maintains registration and
544 | financial information for more than 10,000 charities and 400
545 | professional solicitors and fundraising counsel soliciting

546 | charitable contributions in Pennsylvania. Included among
547 | those registered organizations are veterans groups.

548 | The Secretary of the Commonwealth annually prepares a
549 | report on the number of registered charities, the number of
550 | charities ordered to cease and desist solicitation, the
551 | number of charities contracting with professional solicitors
552 | and the compensation of professional solicitors for each
553 | solicitation campaign in relation to the funds raised and
554 | administrative costs. A copy of the report is available on
555 | our web site, and I do believe I made one available for you
556 | today.

557 | Relevant to the Committee's discussion is the portion of
558 | this year's annual report that highlights the average amounts
559 | paid by charitable organizations to professional solicitors.
560 | Although there is no legal standard defining the permissible
561 | amount of fundraising costs, it is generally acknowledged
562 | that, on average, charitable organizations should spend no
563 | more than 33 a third percent of its contributions on the
564 | costs to raise those contributions.

565 | Based upon campaign financial reports submitted by
566 | professional solicitors in Pennsylvania, the annual report
567 | details that 88 percent of the charities, on whose behalf
568 | campaign financial reports were submitted, paid higher than
569 | the standard, with 54 percent of them actually paying more
570 | than double the standard. Given this data, the Pennsylvania

571 Department of State is keenly aware of the issue of high
572 fundraising costs being paid by charitable organizations that
573 use the services of professional solicitors.

574 I heard some discussion earlier from the opening
575 statements that there is concern when it is 90 percent or
576 more. We have found some of the contracts actually allow for
577 more than 100 percent of the money to go to the professional
578 solicitors. So that is, of course, a big concern.

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

583 Generally, as a question rises involving fundraising
584 issues, the Department, through its Bureau's investigation
585 and audit divisions, assiduously investigates the following
586 matters: unregistered activity by both professionals and
587 charities, failing to file contracts, failing to file
588 campaign financial reports, failing to provide required
589 disclosures, making false and/or misleading statements in
590 solicitation, making false or misleading statements in
591 reports filed with the Bureau and fraudulent transactions
592 involving charitable donations for personal use.

593 Please note, however, that based upon current Supreme
594 Court case law, high fundraising costs alone do not establish
595 fraud. As a result, the Department cannot pursue an

596 | investigation solely on the basis of high fundraising costs.

597 | What the Department can and does do is engage in public
598 | awareness efforts to promote informed charitable giving. The
599 | Department uses a variety of outreach tools to educate
600 | consumers about making smart donation decisions. Available
601 | on our web site is a wealth of consumer information,
602 | including tips for charitable giving as well as information
603 | about dealing with professional solicitors.

604 | In addition, Department staff routinely participates in
605 | senior expos, consumer fairs and other educational forums.
606 | Consumers are encouraged to call the Department's Bureau to
607 | learn more information or to file a complaint about a
608 | charity, a professional solicitor or a fundraising counsel.

609 | The most important tip that the Department routinely
610 | conveys to consumers is to ask questions. I tell them,
611 | question everything. If consumers are not happy with the
612 | answer, they should not give to that group. There are many
613 | other worthy organizations in need of charitable
614 | contributions.

615 | The question, I believe, that is really before us today
616 | is how can we help to ensure that Americans' contributions to
617 | veterans' causes are being responsibly used. In response to
618 | that question, we offer three recommendations:

619 | Increase efforts in public outreach and education.
620 | Consumers, again, need to be educated to ask questions, to

621 | ask for information about the charity. Specifically, how
622 | does it spend its money and, most importantly, how does it
623 | spend its money on its charitable purpose and programs versus
624 | fundraising and administrative costs?

625 | Second, require increased oral and written disclosures
626 | at the point of solicitation. Professional fundraisers
627 | should be required to tell potential donors that a portion of
628 | the contributions will be used to pay for the cost to raise
629 | the money. The disclosure should also include the minimum
630 | amount of contributions guaranteed to be retained by the
631 | charity as it was provided in the contract submitted to the
632 | State in which the solicitation is occurring.

633 | Disclosure of charitable finances, fundraising expenses,
634 | administrative costs, efficiencies and successful mission
635 | outcomes to the public will provide the kind of
636 | accountability and transparency of charities that increases
637 | knowledgeable giving.

638 | Finally, increase Federal oversight. I throw out
639 | Federal Trade Commission, but whatever organization or
640 | Federal agency would be deemed to be appropriate would be
641 | helpful.

642 | Professional fundraisers should be required to submit,
643 | just as charities do, an annual report disclosing their
644 | activities. They should detail the charities for whom
645 | campaigns were conducted, the amount of contributions

646 | received in each campaign, the actual expenses of each
647 | campaign and the amount of contributions actually received by
648 | the charity.

649 | Sort of related to all of these issues is the issue of
650 | the internet. There has been an explosion of the internet.
651 | Of course, as we all know, solicitations are occurring and
652 | very difficult to regulate at the State level unless we can
653 | demonstrate that our State residents are being targeted. If
654 | there could be some sort of more Federal oversight or
655 | required more disclosures on the internet, that, we believe,
656 | would be helpful.

657 | In conclusion, the majority of charities are honest and
658 | provide valuable services for many of the most needy and
659 | vulnerable in our society, including our veterans. The
660 | Department encourages the public to provide donations to
661 | charitable causes.

662 | The key message that consumers should remember from this
663 | testimony is that whenever they wish to donate to a
664 | charitable organization, they should become informed about
665 | the charity's operations by doing some homework. More
666 | specifically, they should research the charity to determine
667 | if the majority of the money raised is going to its
668 | charitable purposes.

669 | Once again, Governor Rendell and Secretary of State
670 | Cortes thank you for providing me the opportunity to appear

671 | before you today. I welcome any questions that you have at
672 | this time. Thank you.

673 | [Prepared statement of Ms. McCurdy follows:]

674 | ***** INSERT *****

675 Chairman WAXMAN. Thank you very much, Ms. McCurdy.

676 Mr. Edmundson, I was very moved by your situation, what
677 you said about your son and what you have gone through, but I
678 also was angry about it for two reasons.

679 One, we sent him to Iraq, and I think most Americans
680 would think that the Federal Government is going to take care
681 of all his medical needs and all the services he may need as
682 a result of the injuries he suffered in fighting that war on
683 behalf of the American people.

684 Secondly, since that is not happening, I am angry at the
685 idea that some of these groups are not providing the care
686 that they promised that they were going to provide to the
687 veterans and what they promised they were going to provide to
688 the veterans. So it is hard not to be with mixed emotions in
689 hearing what you had to say.

690 Did you think when Eric went off to war that if
691 something happened to him, the U.S. Government, the military
692 was going to take care of him?

693 Mr. EDMUNDSON. Mr. Chairman, when Eric went to war, we
694 had no idea, as parents, when Eric was injured so severely
695 and when he came home that we would have to go through as a
696 family what we did in order for Eric to receive the care that
697 he received.

698 I said many times before. I spoke with my son just
699 before, a couple days before he was injured, and we could

700 | tell by his demeanor that he was proceeding to do something
701 | dangerous and mentioned to him to just stay safe, keep your
702 | head down. He mentioned to me and his mother to just relax,
703 | that if something happened, that the Army would take care of
704 | him.

705 | Chairman WAXMAN. Instead, he was hurt, and then you
706 | found out that there is a maze that he had to go through and
707 | there was no one to guide him. You even quit your job just
708 | to be his care coordinator. You made a tremendous sacrifice
709 | for your son, and I am sure, in fact I know, it has had a
710 | very positive impact on his case.

711 | But a lot of injured veterans don't have personal
712 | advocates like you or their family members can't quit their
713 | jobs and move across the Country to battle the Government
714 | bureaucracy.

715 | What would you say are our greatest unfilled needs for
716 | veterans who are returning home with severe injuries?

717 | Mr. EDMUNDSON. We feel that one of the most important
718 | things that we have had to deal with is Eric and many
719 | families of severely injured soldiers, they are in desperate
720 | needs of options, options for the medical rehabilitative care
721 | of their soldier, options to stay home and take care of their
722 | soldier, such as myself. I had to give up my livelihood in
723 | order to stay home and take care of my soldier.

724 | We feel that it should be an option for a parent, a

725 support group, a spouse or whatever, if they so choose, to
726 stay home and take care of their soldier because they know
727 what is best. They can take care. They know their soldier
728 best, but they need to have the option for caregiver support
729 and maybe insurance to stay home, so they don't have to
730 totally give it.

731 Myself, I have been uninsured for two years. WE, as a
732 family, don't complain because we feel very fortunate our
733 soldier is home. There are 4,000 families that don't have
734 their soldiers home.

735 Chairman WAXMAN. There are charitable groups. There are
736 non-profit groups that raise money to help veterans. You
737 have said to us very clearly that many of them have done
738 terrific work for Eric and have been very helpful to you and
739 your family.

740 Based on your experience, what was the most valuable
741 type of help you received from these veterans' groups?

742 Mr. EDMUNDSON. The most valuable help that we received
743 is they have enabled through financial contributions to us.
744 They have enabled me to stay home and be Eric's 24-7
745 caregiver.

746 They have enabled me to stay for seven months in Chicago
747 with Eric while he was going through rehabilitation at the
748 Rehabilitation Institute in Chicago. It was very expensive
749 to stay there. I was under orders with Eric, but I had to,

750 | such as when I first arrived in Chicago, it cost me roughly
751 | \$1,900 for my apartment in Chicago.

752 | I had to pay that \$1,900 up front and then wait to be
753 | reimbursed from the DOD for that. It, initially, was a
754 | tremendous outlay for us and created a burden.

755 | But non-profits enabled us to stay communicated and
756 | connected with the family. They enabled the family with air
757 | tickets to come up and give Eric and I, support, and enabled
758 | me too. It was a morale support for me to be able to stay
759 | there and deal with the issues that Eric was having to go
760 | through.

761 | Eric's outcome, my son's outcome would be drastically
762 | different if it were not for non-profit organizations.

763 | Chairman WAXMAN. Thank you.

764 | You are emphasizing how important it is to help these
765 | non-profits. Of course, we are also looking the kind of
766 | chicanery that some of these non-profits are using by not
767 | providing the benefits and not actually using the funds they
768 | raise for veterans.

769 | If members will permit, I just want to read an e-mail
770 | that I received from Senator Bob Dole, a great American who
771 | served our Country, suffered injuries in World War II, and
772 | headed a panel looking at veterans' health care.

773 | He said to me, thank you for holding hearings and
774 | considering veterans' charities. The timing is excellent

775 | since some of the groups unfairly and perhaps unlawfully
776 | raise a great deal of money during the holiday season.

777 | We cannot do enough for America's deserving veterans
778 | and, while many of the groups do a good job, a great many are
779 | parasites who take the money and keep all or most of it. I
780 | cannot imagine anyone or any group stooping so low to enrich
781 | themselves by exploiting veterans' misery.

782 | The Committee hearing will serve many useful purposes by
783 | exposing the downright fraud used by some and the good other
784 | groups do. The winner will be deserving veterans and their
785 | families.

786 | I thank former Senator and former Majority Leader Bob
787 | Dole for that message that is an important one for all of us.

788 | Mr. Davis, I want to recognize you.

789 | Mr. DAVIS OF VIRGINIA. Well, thank you very much.

790 | Let me thank the panelists for being with us today and
791 | sharing your story.

792 | Mr. Edmundson, in your written statement, you related
793 | that non-profit organizations became an answer to your
794 | prayer. What specific need did the charities meet that the
795 | Department of Defense and the Department of Veterans Affairs
796 | couldn't do?

797 | Mr. EDMUNDSON. I am sorry, sir.

798 | Mr. DAVIS OF VIRGINIA. What did the charities step
799 | forward and do that the Defense Department and the Veterans

800 | Affairs Department didn't do?

801 | Mr. EDMUNDSON. Non-profit organizations have the ability
802 | to, as I mentioned in my statement, they have the ability to
803 | meet immediate needs of the families.

804 | Mr. DAVIS OF VIRGINIA. It is not bureaucratic?

805 | Mr. EDMUNDSON. Yes, sir.

806 | Eric was injured two years ago back when before the
807 | Walter Reed incident broke, and we were having to deal with a
808 | huge amount of bureaucracy, and one of the issues was that
809 | you couldn't get a direct answer from a person. It was like
810 | the left side didn't know what the right side was doing, that
811 | kind of thing, and we were having to wait and deal with
812 | bureaucracy. We were having to deal with hundreds of
813 | e-mails, phone calls, advocating to get Eric what he needed.

814 | In the interim time, non-profit organizations were able
815 | to come through and aid us in getting support to Eric.

816 | Mr. DAVIS OF VIRGINIA. They got back quicker and more
817 | personal, those kinds of things?

818 | Mr. EDMUNDSON. Yes, sir.

819 | Mr. DAVIS OF VIRGINIA. Ms. McCurdy, what standards does
820 | Pennsylvania use when deciding to allow a charity to register
821 | in Pennsylvania?

822 | Ms. MCCURDY. I am sorry.

823 | Mr. DAVIS OF VIRGINIA. What are the standards that
824 | Pennsylvania uses when you allow a charity to register in

825 | Pennsylvania?

826 | Ms. MCCURDY. Well, the actual process of registration is
827 | more of an administrative function, if the forms are filled
828 | out completely and, as best as we can tell at that, function
829 | correctly.

830 | It is more if we have reason to believe that there is
831 | something going on that is improper by that charity. If they
832 | are not reporting everything accurately, we have an
833 | investigative and audit division that will then take over and
834 | look at the matter.

835 | Mr. DAVIS OF VIRGINIA. They file annual reports
836 | basically.

837 | Ms. MCCURDY. Yes.

838 | Mr. DAVIS OF VIRGINIA. They are supposed to, if you look
839 | at these reports, talk about how much is used for fundraising
840 | and how much overhead and how much goes to the actual
841 | recipients.

842 | Ms. MCCURDY. Yes. In Pennsylvania, we have a
843 | registration statement which asks about 25 different
844 | questions just more about what their general activities were.

845 | One of our filing requirements is the IRS Form 990. If
846 | you are familiar with that form, it is the reporting form by
847 | charitable organizations that gets to all of those things
848 | that you mentioned. Then depending upon their threshold
849 | amounts in contributions, we also require financial

850 | statements which may need to be audited.

851 | Mr. DAVIS OF VIRGINIA. You probably have something that
852 | would trigger an audit if the numbers don't reach a certain
853 | level or look a little funny?

854 | Ms. MCCURDY. Not necessarily if they don't reach a
855 | certain level but if we are questioning how those numbers
856 | have been reported, that would trigger us looking at that.

857 | Mr. DAVIS OF VIRGINIA. How many auditors do you have
858 | that can look at that?

859 | Ms. MCCURDY. We have a staff of four auditors.

860 | Mr. DAVIS OF VIRGINIA. How many charities do you have
861 | registered in the State?

862 | Ms. MCCURDY. We have information on more 10,000
863 | charities in Pennsylvania right now.

864 | Mr. DAVIS OF VIRGINIA. Wow.

865 | Ms. MCCURDY. But we believe there are more out there,
866 | and we have been engaging in a huge effort to bring as many
867 | of them into compliance as possible.

868 | Mr. DAVIS OF VIRGINIA. What statute does Pennsylvania
869 | have that might prevent a solicitor from engaging in
870 | fraudulent activities including obtaining money based on a
871 | false pretense, representation or promise?

872 | Ms. MCCURDY. Well, I think we have several available
873 | generally. The only one that falls under my jurisdiction
874 | would be the Solicitation of Funds for Charitable Purposes

875 Act. That is found in Title X of the Pennsylvania statutes.
876 It starts at Section 162.1.

877 The attorney general, which also has jurisdiction over
878 that law, certainly has other avenues available under the
879 consumer protection laws, but we have some specific
880 prohibited acts that are identified in our law.

881 Mr. DAVIS OF VIRGINIA. Have there been successful
882 prosecutions under those laws?

883 Ms. MCCURDY. Absolutely. I was a prosecuting attorney
884 for the last almost five years before I became the director,
885 and we have been very aggressive in our pursuit.

886 Mr. DAVIS OF VIRGINIA. Would higher penalties in these
887 areas, including jail time, be appropriate in your opinion?

888 Ms. MCCURDY. Well, and I should say we have been working
889 with the local criminal authorities on pursuing criminal
890 matters as opposed to just pursuing them at the
891 administrative level.

892 I don't think it is necessarily higher money is going to
893 get the job done. It is going to be criminal prosecution.

894 And then it is also just going to be, and someone
895 mentioned. I think Chairman Waxman mentioned earlier that we
896 have the problem where we have people in Pennsylvania. We
897 get them out of Pennsylvania, and then they go somewhere
898 else, and that is unfortunate. But at the State level, all I
899 can do is to work to get them out of Pennsylvania if they

900 | deserve it, and we have done that.

901 | Mr. DAVIS OF VIRGINIA. I guess the last question is
902 | maybe federally there ought to be some Federal law or
903 | something that looks at this. It always on our side to start
904 | some new regulatory agency, but seeing some of the outrageous
905 | actions that are brought to our attention today, I think it
906 | may be merited.

907 | We appreciate the example that Pennsylvania is setting
908 | and, Ms. McCurdy, we appreciate your testimony. Thank you.

909 | Ms. MCCURDY. Thank you.

910 | Chairman WAXMAN. Thank you, Mr. Davis.

911 | We are being called to the House floor. We do have five
912 | minutes, Ms. Watson, if you want to take it now.

913 | Ms. WATSON. Yes, let me go real quickly and thank Mr.
914 | Edmundson. Your testimony was very moving.

915 | This Committee has been investigating Mr. Chapin and his
916 | charities, and we are concerned that he may not be using the
917 | money he raises in an appropriate manner. I would like to
918 | ask some questions.

919 | My understanding is that after your son, Eric, was
920 | injured, your family sought assistance from a number of
921 | veterans' groups and that Mr. Chapin's group, the Coalition
922 | to Salute America's Heroes, is one of the organizations that
923 | provided assistance. Is that right, Mr. Edmundson?

924 | Mr. EDMUNDSON. That is correct.

925 Ms. WATSON. Can you tell us what Mr. Chapin's group
926 provided to you?

927 Mr. EDMUNDSON. Shortly after Eric was first injured,
928 like I said, he was based at Fort Wainwright, Fairbanks,
929 Alaska, and ended up receiving medical care at Walter Reed.
930 Shortly after he arrived at Walter Reed, his wife and
931 daughter came down from Fairbanks, Alaska, and stayed with
932 him at Walter Reed for the three months he was there.

933 That organization aided Eric and his wife in taking care
934 of some of their financial obligations back in Alaska, which
935 took a great burden off of them at that time and allowed his
936 wife and his daughter to stay with him there.

937 Ms. WATSON. We are concerned that Mr. Chapin and some
938 other people who operate these veterans' charities are
939 keeping too much of the donations they received for
940 themselves and not giving enough to soldiers and their
941 families. For example, we understand that Mr. Chapin paid
942 himself and his wife more than \$500,000 last year in salaries
943 and benefits.

944 In your opinion, Mr. Edmundson, do you think it is
945 appropriate to make a half a million dollar salary in one
946 year while running veterans' charities? What is your opinion
947 on that?

948 Mr. EDMUNDSON. I don't think that is appropriate.
949 My son as well as the other thousands of injured

950 | soldiers from this war or any other war, they are not a
951 | commodity. Organizations come to us and offer their
952 | assistance. We gladly welcome them to aid us in our quest to
953 | get Eric the care that he needs and help us maintain so that
954 | we can help and be with him.

955 | But I don't think it is right that you can use these
956 | soldiers as commodities to raise funds and, as an
957 | organization, to say that you are raising funds to aid all of
958 | the thousands of soldiers and receive charitable
959 | contributions from the public and then turn around and give a
960 | small percentage of that to what you are saying you are going
961 | to do with those contributions.

962 | Ms. WATSON. Let me just comment that we understand that
963 | Mr. Chapin's group raised over \$98 million through donations
964 | that he solicited from people who thought they were helping
965 | people like your son, Eric. But according to his IRS
966 | filings, his group spent only 30 percent of those funds to
967 | help other veterans, and he used the rest of the donations to
968 | pay for for-profit fundraising corporations to raise even
969 | more money for his groups.

970 | For example, he paid one of those for-profit
971 | organizations--it is called American Target Advertising--\$3.5
972 | million last year alone, \$3.5 million. Think of how it would
973 | help Eric and other families like yours.

974 | I don't think you know that less than a third of every

975 | dollar donated to Mr. Chapin's groups actually goes to help
976 | directly the injured veterans.

977 | So we asked Mr. Chapin to come into the hearing today to
978 | explain these actions, but he refused. In fact, the
979 | Committee issued a subpoena. I don't know how you can refuse
980 | receiving a subpoena unless nobody is ever there to receive
981 | it, but they evaded the Federal Marshals who were trying to
982 | serve the subpoena. That behavior alone speaks greatly to me
983 | and should speak greatly to you.

984 | Let me ask you this.

985 | Chairman WAXMAN. Ms. Watson, your time is up.

986 | Let me indicate to you that we are not going to accept
987 | his evasion of service and unwillingness to be here.

988 | Ms. WATSON. Yes. Thank you.

989 | Chairman WAXMAN. We are going to have another hearing,
990 | and we are going to get that subpoena issued to him and
991 | demand that he come before us.

992 | Ms. WATSON. Yes. Thank you so much.

993 | Thank you, Mr. Edmundson, and may God bless you and
994 | yours.

995 | Chairman WAXMAN. We are going to break now because there
996 | are four votes on the House floor. It will probably take us
997 | at least a half-hour. So let's plan to reconvene at 11:30.

998 | The Committee stands in recess.

999 | [Recess.]

1000 Chairman WAXMAN. The meeting of the Committee will
1001 please come back to order.

1002 We were questioning Mr. Edmundson and Ms. McCurdy, and I
1003 want to recognize Mr. Shays to proceed with questioning.

1004 I wonder if somebody can close the door in the back, so
1005 we can avoid the noise coming in the chambers.

1006 Mr. SHAYS. Thank you very much, Mr. Chairman.

1007 Mr. Edmundson, thank you for coming.

1008 Ms. McCurdy, thank you as well. Thank you for what your
1009 Government is doing.

1010 There are so many elements to this. There is the
1011 element that the Chairman raised just about what is our
1012 Country doing for our veterans irrespective of the charity
1013 groups.

1014 Then there is the acknowledgment that Americans want to
1015 assist, want to provide help and give to charities because
1016 they want the charities also to be able to add value-added.
1017 It should be not to do the basics. It should be for those
1018 extra things that can make life a little more tolerable for
1019 the veteran and his or her family.

1020 I got introduced to this issue a few years ago when we
1021 had another charity. Actually, it was for campaigns.

1022 It was Americans for Bush and Americans for Dole, and
1023 each of them raised about \$10 million. It was the same
1024 outfit that raised it for both. They gave \$5,000 to George

1025 Bush and \$5,000 to Senator Dole, and they kept the rest.

1026 Really, what it was is it was a fundraising phone bank
1027 operation. So they just kept increasing their lists, but
1028 then they had lists to sell and so on. They had money to pay
1029 all their employees, and the people who ran it did well.

1030 In this AIP, which is not a pamphlet I am too familiar
1031 with, American Institute of Philanthropy, I think, Mr.
1032 Chairman, your hearing has raised an amazing opportunity for
1033 us to do some good. I was looking at some of these
1034 charities, and some score very well, frankly.

1035 Abortion and family planning, As and Bs and Cs; African
1036 American fundraising, As and Bs; AIDS, As and B pluses;
1037 American Indians, a lot of Fs, Cs and Ds; cancer, a lot of
1038 Fs, amazing number of Fs; blind and visually impaired, a lot
1039 of As and Bs, and we go down.

1040 Then when they get to international relief, a lot of As
1041 and Bs. Save the Children in my district is an A. Other
1042 organizations, I am pretty impressed with.

1043 Then you get to criminal justice issues, and we are back
1044 down to Cs and Ds. Anyway, lots of opportunity to look at
1045 this issue.

1046 But we ended up with a challenge with the Supreme court
1047 when we wanted to look at the constitutionality of putting a
1048 little bit more requirements on the fundraising done for
1049 Americans for Bush and Dole.

1050 Ms. McCurdy, maybe you could tell me what challenges you
1051 think exist when we deal with the Constitution on the Federal
1052 level and why are the States able to do it a little better
1053 than we are?

1054 Ms. MCCURDY. First of all, you pointed out the challenge
1055 from the perspective of the United States Supreme Court, and
1056 that is the First Amendment, and that is routinely what is
1057 thrown out there as an impediment sometimes for us to be able
1058 to do some further regulation because the professionals enjoy
1059 the same protection as the charities of the person when they
1060 are raising money for the charities.

1061 Mr. SHAYS. It is a freedom of speech issue, basically.

1062 Ms. MCCURDY. Yes.

1063 Mr. SHAYS. They can say what they want and do what they
1064 want.

1065 Ms. MCCURDY. That is what it would appear although that
1066 is not entirely true.

1067 Mr. SHAYS. So why do the States have a little easier
1068 time or how do the States deal with this issue?

1069 Ms. MCCURDY. First of all, I don't believe that there is
1070 any Federal agency charged with oversight of the sector other
1071 than the Internal Revenue Service which what they do is just
1072 focus really in on the reporting issues, on how the documents
1073 are being reported and their activities are being reported to
1074 the Internal Revenue Service.

1075 I am not aware of any Federal agency that enjoys the
1076 power to regulate the sector as at the State level.

1077 Mr. SHAYS. So one issue is that we should be looking to
1078 see if, for instance, the Federal Trade Commission or the
1079 Internal Revenue Service should be empowered to have more
1080 oversight potentially or some oversight?

1081 Ms. MCCURDY. If there is that ability. I know with the
1082 proposed new Form 990, the Internal Revenue Service is
1083 looking at some governance issues.

1084 Mr. SHAYS. Explain again what you do that is so much
1085 better than what other States do?. What are the things that
1086 you do?

1087 Ms. MCCURDY. We do enjoy the luxury, I guess, of having
1088 a dedicated staff of investigators and auditors who are
1089 devoted to this issue, solely.

1090 Mr. SHAYS. So you are allowed to audit them.

1091 Ms. MCCURDY. Yes.

1092 Mr. SHAYS. And that opens up opportunities.

1093 Ms. MCCURDY. Yes.

1094 Mr. SHAYS. You are allowed to publicize what they do,
1095 and that probably is helpful.

1096 Ms. MCCURDY. Actually, we are directed to publicize what
1097 they do.

1098 Mr. SHAYS. But what would constitute an illegal act in
1099 your State versus another State?

1100 Ms. MCCURDY. Well, I don't know that I can say, make the
1101 distinction, but I can talk about what would be in my State,
1102 an illegal act.

1103 Mr. SHAYS. Your State does it better than others. I am
1104 just trying to understand what do you do. Is it just the
1105 people and just the energy or do you have certain laws that
1106 give you opportunities?

1107 Ms. MCCURDY. I don't believe that our law is really that
1108 must different from other States' laws. I think it is that
1109 we have the staff. We have the energy, as you pointed out,
1110 to be able to push this forward. We have a prosecuting
1111 attorney who is dedicated full time to work on the cases that
1112 are brought in by the investigators and the auditors.

1113 Mr. SHAYS. Thank you.

1114 Evidently, my time went by faster than I realized.

1115 Thank you.

1116 Chairman WAXMAN. Thank you, Mr. Shays.

1117 Ms Norton.

1118 Ms. NORTON. Thank you, Mr. Chairman.

1119 Ms. McCurdy, I am interested in pursuing the question I
1120 raised in my opening remarks about the amount of funds that
1121 go directly to the charity as announced.

1122 I have here this month's Better Business Bureau guide,
1123 Wise Giving Guide, and I note that their guide says no more
1124 than 35 percent of the money should go for what we will call

1125 fundraising or expenses, in other words.

1126 Then there is another guide, the American Institute of
1127 Philanthropy. This is the charity rate guide and the
1128 watchdog report. Both of these are this month's report, and
1129 they say \$35 percent for every \$100. I think it is pretty
1130 generous.

1131 I will ask you about that. Would you agree that
1132 fundraising costs should be capped at one-third or below?

1133 Ms. MCCURDY. I think this was pointed out in one of the
1134 opening statements. You can't say that necessarily across
1135 the board. If you have a new organization that is just
1136 getting started, there will be higher costs of fundraising at
1137 the beginning. It is where you look at the historical
1138 tracking of that particular organization and if they can't
1139 find a way to reduce their fundraising costs to keep them
1140 below that amount.

1141 That is the, I think, the average. I think I made that
1142 point in my statement as well, that that is the generally
1143 accepted standard for fundraising. So you have to look at it
1144 over a historical time, but if consistently they are spending
1145 more than that, I believe it would be a concern, yes.

1146 Ms. NORTON. It would be a concern.

1147 I wonder if you could look at a slide that I would ask
1148 the staff to put up concerning the percentage of funds spent
1149 on veterans by a number of groups. As you look at the first

1150 group, TAPS, and this group has a solid record as they kept
1151 fundraising down to around 27 percent, meeting the benchmark.

1152 But all four of the other groups failed the test. Some
1153 of them are well known groups. In other words, they spent
1154 the majority of their funds raised from the public on the
1155 fundraising. It ranges, if you look, from 58.6 percent to
1156 85.9 percent.

1157 Would you agree that at least people know in advance,
1158 for example, that 85 cents of every dollar they are giving is
1159 going to expenses, fundraising expenses? Is that at least
1160 the kind of knowledge?

1161 I am not sure what kind of regulation. I am using, at
1162 least as a guide, the one group I know under Federal
1163 jurisdiction and that is Charitable Giving here.

1164 Ms. MCCURDY. I assume when you are saying these people,
1165 you are talking about the donors should know about this?

1166 Ms. NORTON. Charitable giving.

1167 Ms. MCCURDY. Yes, absolutely, that is part of my point
1168 that I am hoping I get across today. I believe the donors
1169 should know this, and it should be disclosed at the beginning
1170 of any solicitation whether it is in writing or oral.

1171 Unfortunately, we are, as I mentioned earlier,
1172 constrained by the Supreme Court case, the Madigan v.
1173 Telemarketing Associates case, which says that it will be
1174 unconstitutional to require that disclosure at the outset.

1175 Ms. NORTON. It would be unconstitutional? I am sorry.

1176 Ms. MCCURDY. To require the disclosure of the actual
1177 percentage of money that is going to go to the fundraiser
1178 versus to the charity.

1179 Now, if the donor asks the question.

1180 Ms. NORTON. Well, I don't think we are violating the
1181 law. The Combined Campaign Fund does, in fact, list what
1182 amount of funds go to fundraising, so you know.

1183 Ms. MCCURDY. Absolutely. The problem would be if the
1184 Government required that disclosure. I believe that the
1185 charities should fully disclose that, and it is certainly not
1186 only acceptable, but I think should be encouraged to disclose
1187 that.

1188 Ms. NORTON. You said there may be constitutional
1189 problems with requiring the disclosure of the amount of the
1190 funds that go for expenses even though they have to file an
1191 annual report that go for expenses and that go to the
1192 charity.

1193 Ms. MCCURDY. It is at the point of solicitation which is
1194 where the issue is.

1195 Ms. NORTON. Sorry?

1196 Ms. MCCURDY. It is at the point of solicitation is where
1197 the issue becomes the issue. If the donor asks the question,
1198 which is why I want to focus so much energy on trying to
1199 better educate the donors, if they ask the question, they are

1200 required to answer truthfully, but we cannot require that
1201 there is a voluntary disclosure at the outset.

1202 The reason that is stated is it would quash fundraising
1203 efforts if the donor knew, and it is sort of ironic because
1204 that is exactly what we are hoping.

1205 Ms. NORTON. I don't know this decision, but I think, Mr.
1206 Chairman, we will have to look at this decision because I
1207 don't think the Federal Government is in violation of this
1208 decision.

1209 I know this: Federal employees, we have some
1210 jurisdiction on. They are our employees. We have, forgive
1211 the expression, sole custody of these soldiers. They are
1212 under our command. They must do exactly what we say.

1213 So the notion that there can't be at least some way to
1214 inform people whether they are giving to our soldiers or
1215 giving to expenses does not seem to me to be forbidden.

1216 Ms. MCCURDY. I think the Combined Federal Campaign is a
1217 perfect way to be able to do exactly what you are suggesting
1218 which is to disclose how the money is going to be spent.

1219 Chairman WAXMAN. Thank you very much, Ms. Norton.

1220 Mr. Platts.

1221 Mr. PLATTS. Thank you, Mr. Chairman.

1222 I would like to first yield to my colleague, Mr. Shays.

1223 Mr. SHAYS. Yes, I thank the gentleman for yielding.

1224 Just to correct the record, Mr. Chairman, I had said

1225 | that myself and Mr. Koch and Attorney Blumenthal had been
1226 | used by the National Veterans Service Fund in quotes that
1227 | they took from us in 1980, and Mr. Koch had notified me of
1228 | that and we got ourselves off the list. But it wasn't
1229 | Attorney Blumenthal. It was former Governor William A.
1230 | O'Neill who just recently passed away, whose quote they were
1231 | using, I think, mistakenly.

1232 | I thank the gentleman for yielding.

1233 | Mr. PLATTS. You are welcome.

1234 | Mr. Chairman, thank you and the Ranking Member for
1235 | hosting this very important hearing. We certainly are a
1236 | blessed Nation because of those who serve in uniform, and we
1237 | want to make sure when individuals seek to help them by
1238 | contributing funds to charity groups, that those funds really
1239 | go to those who have served us or the family members.

1240 | I want to thank both of our witnesses for your work and
1241 | especially, Mr. Edmundson, please convey my sincere gratitude
1242 | to your entire family for your son's service and sacrifice.
1243 | As I said, we are blessed because of him and all our heroes
1244 | who wear the uniform.

1245 | Certainly, Ms. McCurdy, I am delighted to be here with a
1246 | fellow Pennsylvanian, and I appreciate your work at the
1247 | Bureau.

1248 | Without preaching any privacy requirements on you, can
1249 | you give some examples of actual investigations you have done

1250 | into misconduct or allegations of misconduct?

1251 | Ms. MCCURDY. I can talk about a couple of veterans ones
1252 | we have done or I can talk in the broader scope if you would
1253 | like.

1254 | Mr. PLATTS. If you can keep the focus on the veterans,
1255 | that would be great.

1256 | Ms. MCCURDY. Sure. As I mentioned earlier, and you
1257 | weren't in the room at the time.

1258 | Mr. PLATTS. Yes, I do apologize if I am repeating
1259 | because of trying to be in too many places at one.

1260 | Ms. MCCURDY. No. I certainly understand, but I
1261 | mentioned that we do work with the criminal authorities. The
1262 | local district attorneys in Pennsylvania share jurisdiction
1263 | over our Act. It has been one of our goals of our Bureau to
1264 | work more. There are 67 counties in Pennsylvania, and we
1265 | probably have about 8 or 9 that we have had some good working
1266 | relationships with now, and we believe that that is the best
1267 | way to get to some of this.

1268 | We have successfully prosecuted two individuals who were
1269 | using a veterans' organization as a mechanism to raise money
1270 | for themselves.

1271 | Mr. PLATTS. How did they or that information come to
1272 | your attention that led to the investigation and prosecution?

1273 | Ms. MCCURDY. I know at least one of them was doing
1274 | solicitation in front of a Wal-Mart, and they were violating,

1275 I think, a local solicitation law. I am not sure on the
1276 facts, and I do have the chief of our investigation division
1277 with us, and he can certainly amend anything that I have to
1278 say.

1279 But we learned about them through local authorities,
1280 that they were out there, that they were asking for money,
1281 and someone would report it to us. We have enjoyed the
1282 benefit of being able to call up the local authorities, and
1283 then they would go out and exercise their arrest powers on
1284 our behalf, basically.

1285 Mr. PLATTS. Does the Bureau only respond to when there
1286 is information brought to you--having been in the State
1287 house, but it has been seven years, so I am maybe a little
1288 rusty on the interaction--or do you do any kind of spot
1289 checks on charitable groups, more kind of an undercover
1290 approach, proactively?

1291 Ms. MCCURDY. All of the above. We have reactive
1292 investigations. Of course, if we receive a complaint, that
1293 is going to be something that we will consider to be a
1294 priority that we would pursue, but we have proactive
1295 investigations. We learn a lot about our investigations
1296 through the media, any way.

1297 We also do random audits. We do maintain the records
1298 for the 10,000 organizations that I mentioned in my
1299 statement, and we have the ability. We have five

1300 | investigators and four auditors to be able to routinely check
1301 | them.

1302 | Of course, it is sort of like any other agency. If you
1303 | have come to our attention before, you will stay on our radar
1304 | screen, and we will look at you in the future as well.

1305 | Mr. PLATTS. I apologize. This may have been asked as
1306 | well earlier. Is there something, anything particular or
1307 | specific that we could do that would better help you at the
1308 | State level and then alternately at the local level with our
1309 | DAs in Pennsylvania and across the Country that is currently
1310 | not in law?

1311 | Ms. MCCURDY. If there was some way that we could better
1312 | educate the donors. We are one bureau in Pennsylvania. The
1313 | attorney general's office also has jurisdiction, and they do
1314 | some outreach efforts through their charitable trusts
1315 | section.

1316 | But it needs to be more national. It needs to be more
1317 | global. We struggle with how do we reach the donors, how do
1318 | we educate them that the most important thing a donor can do
1319 | before they give money is ask questions. Question
1320 | everything.

1321 | Mr. PLATTS. Yes. So we have done better nationally with
1322 | identity theft and outreach to better get the public aware or
1323 | something similar, that type of national effort?

1324 | Ms. MCCURDY. Absolutely, that is a perfect example of

1325 something that I think has been done well. Whatever the
1326 methods that were used to achieve that, if we can employ that
1327 in the charitable sector, it would be really helpful.

1328 Mr. PLATTS. Great.

1329 Well, again, my thanks, Mr. Chairman and to our
1330 witnesses for your important testimony and again, Mr.
1331 Edmundson, to your family for your family's service to our
1332 Nation.

1333 Thank you, Mr. Chairman.

1334 Chairman WAXMAN. Thank you, Mr. Platts.

1335 Mr. Sarbanes.

1336 Mr. SARBANES. Thank you, Mr. Chairman.

1337 Mr. Edmundson, thanks for coming and talking to us today
1338 and testifying. You really set the stage for all the
1339 testimony that follows in terms of why we have to pay so much
1340 attention to this. So, thank you.

1341 Ms. McCurdy, I had a couple questions. I am going to go
1342 back to this line of questioning that Congresswoman Norton
1343 was pursuing just so I can understand a little bit better
1344 because disclosure seems to be a key ingredient here in
1345 solving the problem, and you talked a lot about just needing
1346 to have more information available to people.

1347 Just so I understand, you are saying that the law
1348 currently prohibits at the point of solicitation a disclosure
1349 at that point, whether it is orally like over the phone or

1350 something or embedded somehow in a written solicitation.

1351 It prohibits requiring that, at that point, you disclose
1352 how expenses have been paid for--is that what you are
1353 saying--versus a requirement that would say how money is
1354 going to be spent going forward? Is there any distinction
1355 there or are both prohibited?

1356 Ms. MCCURDY. As I understand the case, the Supreme Court
1357 case which was the Madigan versus Telemarketing Associates
1358 case, first of all, they come right out and say that high
1359 fundraising costs per se are not per se fraud. Then the
1360 second element of that is that the States or whoever is
1361 regulating the disclosure cannot require that they
1362 voluntarily disclose that amount during a solicitation.
1363 However, if asked, they have to truthfully answer.

1364 That is as I understand the case.

1365 Mr. SARBANES. I, like others, want to understand that
1366 case better because it seems to me there must be some way to
1367 build some basic disclosure in there.

1368 Ms. MCCURDY. It is critical.

1369 Mr. SARBANES. But let me ask a different question. Are
1370 there any accreditation opportunities out there? Are there
1371 organizations, and maybe the next panel is better positioned
1372 to respond to this than you are, but are there any
1373 organizations out there that, in effect, accredit, where you
1374 can seek accreditation?

1375 Like within the non-profit world, I know that there are
1376 accrediting organizations that have grown up where if you hit
1377 15 measures successfully, then they will say you have the
1378 stamp of approval from such and such organization which gives
1379 people some confidence in dealing with that non-profit. Are
1380 there any similar kinds of organizations out there and, if
1381 so, is it having the effect of people, charities invoking
1382 that or using that stamp of approval as a way of promoting
1383 their cause or giving more comfort to the donors?

1384 Ms. MCCURDY. I am not aware. The only organization that
1385 I have any knowledge of is the Association of Fundraising
1386 Professionals, and I don't know if they have any
1387 accreditation process as is done at the charitable level.

1388 I know in Pennsylvania the Pennsylvania Association of
1389 Non-Profit Organizations does use the standards of excellence
1390 program, but I can't really speak on how they view the
1391 success of that. I know it is a program that they are using
1392 more and more, so they must believe that it is being
1393 successful for their member organizations in how they are
1394 building the donor confidence with their own donors.

1395 I am not familiar at the fundraiser level. I think the
1396 next panel maybe might have some more insight into that than
1397 I do, but I don't know if that would help necessarily at the
1398 point of solicitation.

1399 Mr. SARBANES. When you say that, why is that? What do

1400 | you mean?

1401 | Ms. MCCURDY. Well, it relates to the fact of it is like
1402 | with any profession. People who want to do good will do
1403 | good. People who will join those organizations, they are not
1404 | the ones we are concerned about.

1405 | We are concerned about the other ones who aren't joining
1406 | member organizations, who aren't participating in
1407 | accreditation programs. They are the ones that we have to
1408 | worry about. They are the ones that are the profiteers.
1409 | They are the ones.

1410 | I would imagine that if I were to look at the contracts
1411 | in Pennsylvania, the ones that are problematic and they are
1412 | in our report. You can see the ones where the high numbers
1413 | of costs are versus the amount of money, and we also report
1414 | on the ones that are responsible. They are not going to be
1415 | helped by any further disclosure.

1416 | Mr. SARBANES. I guess what I would hope is if you
1417 | develop a mechanism, a kind of good housekeeping seal of
1418 | approval thing that people wanted to get to help with their
1419 | credibility in solicitation, over time when people are
1420 | calling in or you are doing your education efforts, you could
1421 | say, look for the good housekeeping seal of approval, so that
1422 | over time, people, the donor audience would come looking for
1423 | that as a way of giving them some comfort. I was wondering,
1424 | do you have any?

1425 You have 10,000 charities that are registered, I think
1426 you said. Are you aware of charities that are using in their
1427 solicitation and, in the case that they make to the public,
1428 are pointing to how efficient they are? Do you instances of
1429 that and how effective do you think that is as part of the
1430 pitch that they are making?

1431 Ms. MCCURDY. I am aware that they are doing it. Of
1432 course, it makes absolute sense to do that if they have
1433 achieved, and I know it is a stringent process for PANO, the
1434 Pennsylvania Association, to achieve that standards of
1435 excellence.

1436 If they have gone through everything, and they look at
1437 everything. They pull out all the drawers and look at
1438 everything that is in those drawers. So, certainly, if they
1439 survive that process, absolutely, they are going to use it.

1440 How effective is it in their solicitation campaigns? I
1441 can't comment. I don't know.

1442 Mr. SARBANES. Okay.

1443 Chairman WAXMAN. Thank you, Mr. Sarbanes.

1444 Mr. Burton.

1445 Mr. BURTON. Thank you, Mr. Chairman.

1446 I just don't understand how an organization can give
1447 less than 5 or 4 or 3 or 2 percent to the soldiers involved
1448 and not be guilty of some kind of infraction, so they can be
1449 prosecuted. Well, what is the standard?

1450 I mean maybe you have answered this before. At what
1451 point does it become fraudulent?

1452 Ms. MCCURDY. There is not a legal standard that is
1453 applied.

1454 Mr. BURTON. Is there a way to create a legal standard?

1455 It seems like the State legislatures or, if we are
1456 talking about veterans from across the Country, the Congress
1457 could pass some kind of a law saying that there has to be
1458 accountability and set some kind of a standard.

1459 Ms. MCCURDY. If the legislature can do that, I would
1460 applaud it, and it certainly would make our job easier if we
1461 had a standard for us to be able to look at whether or not
1462 the high fundraising costs are a problem. Then certainly
1463 that triggers us to look at it if it is a high amount, but we
1464 have to look at the underlying numbers and we really have to
1465 look for actual fraud.

1466 Mr. BURTON. I get these things all the time. I am sure
1467 all of us do. Some of these on this list, I have given money
1468 to on a regular basis, and it is really distressing to know
1469 that.

1470 That is a tax-deductible item to the person who is
1471 giving that money. If they are frittering away that money or
1472 wasting that money, it seems like they would be complicitous
1473 in tax fraud because they are taking my money and they are
1474 not spending it wisely or they are putting it in their own

1475 | pockets. It seems like there ought to be some retribution
1476 | for that.

1477 | Ms. MCCURDY. I don't disagree.

1478 | Mr. BURTON. Have you ever thought about or has there
1479 | been any legislative proposals to set some standards like
1480 | that?

1481 | Ms. MCCURDY. Not in the five years that I have been
1482 | working in this area. I know we are revisiting our current
1483 | statute in Pennsylvania. We haven't done anything officially
1484 | with the legislature, but we in the Bureau are looking at it
1485 | and looking for areas where there might be some amendments
1486 | that would be helpful.

1487 | Mr. BURTON. Are there any groups that are looking at a
1488 | legislative way or a law that could constrict some of these
1489 | people's appetites for pocketing this money?

1490 | Ms. MCCURDY. I am not sure what you mean by are there
1491 | any groups looking at?

1492 | Mr. BURTON. I mean are there any groups coming up with
1493 | any legislative proposals?

1494 | You folks are watchdog groups, but have any of your
1495 | organizations that are watching these charities come up with
1496 | some legislative mechanism that we could work on here in
1497 | Congress or in the State legislatures to set the standard?

1498 | Ms. MCCURDY. Not that I am familiar with, but I can.

1499 | Mr. BURTON. That is something. That seems like to me

1500 that is something that we need.

1501 Having these hearings and talking about it and focusing
1502 attention on it like in the paper, the Washington Post this
1503 morning, I think that is good, but I will bet you that not 1
1504 percent of the American people are following this hearing.
1505 They are not going to know it is going on, and so they are
1506 going to continue to pour this money into these charities
1507 that are wasting it.

1508 It seems to me that there has to be some way to say,
1509 okay, if you are getting a dollar, you have to at least put
1510 this much money into the charitable purpose. You can use the
1511 rest for advertising and whatever you want to, but you have
1512 to put at least this percentage in. That would, I think, put
1513 a real hammer on these people.

1514 But you don't know of any legislative proposal like
1515 that?

1516 Ms. MCCURDY. I am not aware of any, but the State, the
1517 State regulators are all members of an organization called
1518 the National Association of State Charity Officials or, as we
1519 say, NASCO. I am actually on the board of directors for
1520 that. I can certainly bring that up at our next board
1521 meeting and see if we think there is anything at our level
1522 that we might be able to start looking at.

1523 Mr. BURTON. Well, I have Brian, my staff guy, here. I
1524 would like to really have somebody. When you meet with these

1525 | people, if you could give us some kind of parameters that
1526 | could be put into a legislative proposal, that might at least
1527 | scare the hell out of these people that are stealing this
1528 | money.

1529 | Ms. MCCURDY. We can certainly do that. I would be happy
1530 | to provide further information to you to that.

1531 | Mr. BURTON. I will have Brian get in touch with you
1532 | then.

1533 | I don't think I have any other questions. I just feel
1534 | the frustration--I think all of us do--especially when I
1535 | think of the money I have given them.

1536 | Ms. MCCURDY. You are not alone.

1537 | Mr. BURTON. Thank you, Mr. Chairman.

1538 | Chairman WAXMAN. Thank you, Mr. Burton.

1539 | I want to express my concern that there is not
1540 | sufficient legislative protections. I think we ought to, on
1541 | this Committee in our oversight, not only find out the
1542 | problems but figure out some solutions, and I hope we can all
1543 | work together on this Committee to come up with some ideas to
1544 | do that.

1545 | I think a lot of people don't realize how little of that
1546 | money they are giving to these charities, not just veterans'
1547 | charities but all charities, actually goes for the purpose
1548 | that they were told charities serve.

1549 | Another thing that most people don't realize is we have

1550 | heard about the charities raising money, but there are
1551 | professional organizations. In fact, there is an entire
1552 | industry of for-profit companies that do nothing but send
1553 | letters and make calls to solicit charitable donations.

1554 | For example, you have a charity. Let me give an
1555 | example, the Disabled Veterans Association. They have a
1556 | major fundraising campaign from August, 2005 to April, 2006,
1557 | but they didn't do the fundraising themselves. Instead, they
1558 | hired a for-profit fundraising corporation called Civic
1559 | Development Group to help them, and DVA has provided the
1560 | Committee with a breakdown of its fundraising expenses. I
1561 | would like to see if we can put that on the board.

1562 | As this document shows, the first number is the amount
1563 | of money that people donated. Fundraising collections were
1564 | over \$4.5 million, and that is a phenomenal amount for a
1565 | charity. But the next line indicates fundraising expenses
1566 | were about \$4 million. In other words, out of \$4.5 million
1567 | in donations, this charity got less than 500,000. That is
1568 | what the charity got, and that is not even 10 percent of the
1569 | money that was raised for that charity.

1570 | Now, Ms. McCurdy, based on your experience, do donors
1571 | know that up to 90 cents of every dollar they provide could
1572 | be eaten by fundraising costs?

1573 | Ms. MCCURDY. I don't think that the large amount of
1574 | donors do know it, and I do believe that that is one of the

1575 | most critical things that we as State regulators and that you
1576 | as the Federal Government can do is to provide better
1577 | education, as I was discussing with Representative Platts,
1578 | that there could be some way that we could take this to the
1579 | level that we have on other important issues and make them
1580 | more aware.

1581 | Chairman WAXMAN. So people aren't aware.

1582 | That which we have just shown on the board is the
1583 | breakdown of the fundraising campaign's expenses, but the
1584 | actual expenses are broken down even further. They have all
1585 | kinds of things you would expect. They are paying for
1586 | salaries. They paid for rent, equipment, telephones, all the
1587 | supplies, printing and shipping.

1588 | Most people think, of course, there are fundraising
1589 | expenses, but then you come to the last line. Even after all
1590 | these charges for every expense imaginable, the for-profit
1591 | corporation charges \$2.2 million for "management consulting
1592 | fees." This \$2.2 million is 55 percent of all the money
1593 | that they have raised in that campaign, and they have
1594 | something called a management consulting fee.

1595 | I don't know what goes through your mind, but let me ask
1596 | you, Mr. Edmundson. What goes through your mind when you now
1597 | see that they are taking \$2.2 million or 55 percent of all
1598 | the money raised, and it is going to a management fee?

1599 | It is pretty outrageous, isn't it?

1600 Mr. EDMUNDSON. The first thing that goes through my mind
1601 when I read this is anger, absolutely.

1602 Chairman WAXMAN. Well, we all share that anger. Just
1603 giving them a seal of approval or not doesn't seem to me
1604 enough. We ought to do what we can do, but I don't think
1605 this should be tolerated, and I don't think most Americans
1606 would think it ought to be tolerated either.

1607 It makes all of us angry that the veterans, people who
1608 have served our Country, are used to raise money to give some
1609 professional organization and the business of fundraising,
1610 management fees of 55 cents out of every dollar. It is
1611 absolutely inexcusable.

1612 I see Mr. Van Hollen has come, and I want to recognize
1613 him.

1614 Mr. DAVIS OF VIRGINIA. Mr. chairman, can I just take one
1615 second to say I would associate myself with your remarks?

1616 Chairman WAXMAN. Yes.

1617 Mr. DAVIS OF VIRGINIA. We are talking today about
1618 veterans, but I think unfortunately this stretches into every
1619 part of charitable donations to diseases, orphans and the
1620 like.

1621 I really applaud you for holding the hearing, and I hope
1622 we can work with you to follow up with some legislative
1623 action.

1624 Chairman WAXMAN. Thank you very much.

1625 Mr. Van Hollen.

1626 Mr. VAN HOLLEN. Thank you, Mr. Chairman, and thank you
1627 for calling this hearing on a very important issue. It is,
1628 obviously, important that the American people have confidence
1629 that when they are providing money to our veterans, in
1630 support of our veterans, that it is being used for that
1631 purpose.

1632 I appreciate your testimony and, Mr. Edmundson, I heard
1633 your opening statement. I want to thank you for being here
1634 and for the sacrifice your family has made.

1635 Ms. McCurdy, I had a question with respect to the
1636 recourse that the public has in these cases. I understood
1637 your testimony with respect to the Supreme Court ruling which
1638 is they said that you can't essentially hold one of these
1639 non-profits accountable through the criminal justice system
1640 anyway right now with respect to fraud.

1641 If an organization that is raising money, one of these
1642 charitable foundations, makes a statement, a representation
1643 to the public as part of their fundraising, for example, if
1644 they say, 80 cents of every dollar goes to veterans, and that
1645 proves to be untrue, then there would, would there not, be
1646 some recourse against them in terms of a misrepresentation
1647 and fraud on the public?

1648 Ms. MCCURDY. Absolutely, and we would pursue that in
1649 Pennsylvania aggressively both administratively through my

1650 | office and hopefully with whatever criminal jurisdiction that
1651 | fell in.

1652 | Mr. VAN HOLLEN. Right. So did the Supreme Court
1653 | decision bar in any way either State or local governments
1654 | from requiring that non-profit organizations that register in
1655 | their communities be required to disclose the amount that
1656 | goes to veterans' organizations?

1657 | Ms. MCCURDY. There is disclosure that does take place.
1658 | It is in the annual reporting that they are required to do,
1659 | and the professionals are required to file with us every
1660 | contract.

1661 | I mean the disturbing thing for us--coincidentally,
1662 | before this issue came up that we had the opportunity to be
1663 | here today and speak to you, we had been looking. As I said
1664 | earlier, in our annual reports, we report on what
1665 | professional solicitors are reporting and we look at their
1666 | contracts. Charities are agreeing to this, and it doesn't
1667 | violate State law for them to agree to a contract.

1668 | I can tell you we looked at all the ones that were over
1669 | 100 percent of the costs went to the professionals. So, in
1670 | other words, the charities were actually paying for the
1671 | campaign, and they got nothing out of it, and they agreed to
1672 | this in contract form.

1673 | Mr. VAN HOLLEN. I understand.

1674 | I guess my question is that you get the information.

1675 | You get to look at the contracts. But is there anything that
1676 | would prohibit a State government, for example, from saying
1677 | as a condition of registering as a non-profit, you must tell
1678 | the public how much of the dollars you are raising goes to
1679 | veterans and how much is going to the purpose, so that then
1680 | you can hold them accountable for making a public statement?

1681 | In other words, then if they misrepresent to the public
1682 | what they are doing, you do have grounds for going after
1683 | them. Is there anything that would prohibit us from requiring
1684 | that they disclose to the public how much of every dollar
1685 | raised is going to the cause that people giving think it is
1686 | going to and how much is going to overhead and profit or
1687 | overhead and to pay the salaries?

1688 | Ms. MCCURDY. Legislatively, we don't have that ability
1689 | to do that right now. I don't know whether or not that is
1690 | something that can be changed in Pennsylvania law. I don't
1691 | know whether or not the Supreme Court case, any
1692 | constitutional challenge to that law would prevent it
1693 | ultimately.

1694 | However, we can require them to state that when asked,
1695 | and that is required in Pennsylvania. If the donor asks the
1696 | question, they have to give a truthful answer. At that
1697 | point, if it is not a truthful answer and we are able to
1698 | demonstrate that, we would pursue it.

1699 | Mr. VAN HOLLEN. Yes, we want to educate the public.

1700 Ms. MCCURDY. Right.

1701 Mr. VAN HOLLEN. But that, of course, puts the burden on
1702 every financial contributor to ask that question.

1703 Ms. MCCURDY. Yes, it does.

1704 Mr. VAN HOLLEN. I am just asking whether there is
1705 anything that you know of in the Supreme Court decision that
1706 would prevent us from reversing that burden and saying to
1707 somebody who is raising money for a good cause, how much of
1708 that money is actually going to the cause that they are
1709 serving.

1710 Ms. MCCURDY. I would love to see that if that could
1711 happen. We are as frustrated in my Bureau as anyone else.
1712 At the same time that we are regulating this, we are donors
1713 also, and we enjoy the ability to be able to investigate the
1714 organizations. If that could happen, that would be a really,
1715 really helpful thing.

1716 Mr. VAN HOLLEN. Thank you.

1717 Thank you, Mr. Chairman.

1718 Chairman WAXMAN. Thank you, Mr. Van Hollen. Let me
1719 commend you for your leadership on this issue. I know it has
1720 been a very important cause to you.

1721 Thank you both very much for being here. You have
1722 certainly set out the framework for the issue that we are
1723 looking at, and we are going to have another panel of
1724 witnesses. I very much appreciate your participation in the

1725 | hearing, and we are grateful for that.

1726 | Mr. Edmundson, we owe you and your son to do something
1727 | about this problem. Thank you so much.

1728 | Mr. EDMUNDSON. Thank you.

1729 | Ms. MCCURDY. If there is anything that I or my Bureau
1730 | can assist with in the future, please don't hesitate to ask.

1731 | Chairman WAXMAN. Thank you.

1732 | I would like to now call forward Mr. Robert Friend,
1733 | President of the American Veterans Coalition, Gig Harbor,
1734 | Washington; Ms. Pamela L. Seman, Executive Director of the
1735 | Disabled Veterans Associations in Rocky River, Ohio; Mr.
1736 | Daniel Borochoff, President of the American Institute of
1737 | Philanthropy; Mr. Bennett Weiner, Chief Operating Officer,
1738 | The Better Business Bureau's Wise Giving Alliance; and Ms.
1739 | Bonnie Carroll, Executive Director, Tragedy Assistance
1740 | Program for Survivors in Washington, D.C.

1741 | I want to welcome each of you to our hearing today. We
1742 | very much appreciate your being here.

1743 | It is the practice of this Committee now that you are
1744 | seated, to ask you to stand because all witnesses that
1745 | testify before us must do so under oath.

1746 | (Witnesses sworn.)

1747 | Chairman WAXMAN. Let the record show that the witnesses
1748 | responded in the affirmative.

1749 | Ms. Carroll, why don't we start with you?

1750 Let me indicate that your prepared statements will all
1751 be in the record in full.

1752 We would like to ask you to limit the oral presentation
1753 to no more than five minutes. We will have a clock there
1754 that will be green, turn yellow for the last minute and then
1755 red when the five minutes are up.

1756 Please proceed.

1757 | STATEMENTS OF BONNIE CARROLL, EXECUTIVE DIRECTOR, TRAGEDY
1758 | ASSISTANCE PROGRAM FOR SURVIVORS; PAMELA L. SEMAN, EXECUTIVE
1759 | DIRECTOR, DISABLED VETERANS ASSOCIATIONS; ROBERT FRIEND,
1760 | PRESIDENT, AMERICAN VETERANS COALITION; DANIEL BOROCHOFF,
1761 | PRESIDENT, AMERICAN INSTITUTE OF PHILANTHROPY; BENNETT
1762 | WEINER, CHIEF OPERATING OFFICER, THE BETTER BUSINESS BUREAU'S
1763 | WISE GIVING ALLIANCE

1764 | STATEMENT OF BONNIE CARROLL

1765 | Ms. CARROLL. Mr. Chairman, distinguished members of the
1766 | Committee, on behalf of TAPS, the Tragedy Assistance Program
1767 | for Survivors, and the families of those who have died while
1768 | serving in the Armed Forces, I am honored to have this
1769 | opportunity to speak about the care provided to surviving
1770 | military families.

1771 | Dr. Daniel R. Sudnick, the Chief Financial Officer for
1772 | TAPS, has provided a written statement addressing critical
1773 | aspects of the subject before today's panel, and I
1774 | respectfully request his statement be submitted to the
1775 | record.

1776 | Chairman WAXMAN. Without objection, that will be the
1777 | order.

1778 [Prepared statement of Mr. Sudnick follows:]

1779 ***** INSERT *****

1780 Ms. CARROLL. The subject of today's hearing reflects the
1781 gravity of the words of President Abraham Lincoln, inscribed
1782 on the front of the Department of Veterans Affairs building:
1783 "With malice toward none; with charity for all; with
1784 firmness in the right, as God gives us to see the right, let
1785 us strive on to finish the work we are in; to bind up the
1786 Nation's wounds; to care for him who shall have borne the
1787 battle, and for his widow, and his orphan."

1788 As the widow of a soldier killed along with seven other
1789 soldiers in the Army National Guard, as a Reserve commander
1790 who lost two of my airmen, as Chief of Casualty Operations at
1791 Headquarters U.S. Air Force Casualty Affairs, as a Department
1792 of the Army civilian serving in Iraq and now as the Executive
1793 Director of TAPS, I have seen the best of the services
1794 provided to our surviving families, both in the public and
1795 private sectors. It is my privilege to offer insight today.

1796 For the past 14 years, TAPS has been a sanctuary
1797 providing hope, comfort and healing for all those whose lives
1798 have been forever changed by the death of a loved one who
1799 served in the Armed Forces. Whether they are parents,
1800 children, spouses or siblings, TAPS meets a critical need by
1801 offering a national network of peer-based emotional support,
1802 the Survivor Seminars and Good Grief Camps for Young
1803 Survivors, long term case work assistance connecting families
1804 with all public and private agencies, bereavement and trauma

1805 resources and information across America and crisis
1806 intervention.

1807 This network is available 24 hours a day, 7 days a week,
1808 at no charge to the family and at no expense to the
1809 Government. In cooperation with our fellow Veterans Service
1810 Organizations such as Gold Star Wives, Gold Star Mothers,
1811 Society of Military Widows, National Military Family
1812 Association and others, we meet the need of offering loving,
1813 emotional support services to all those grieving the death of
1814 their loved one.

1815 TAPS was founded after two years of careful research
1816 examining the need, the existing services provided, and the
1817 private and public support already in place. The goal of
1818 creating this Veterans Service Organization was to provide
1819 care not otherwise offered. From this extensive research,
1820 TAPS identified those areas where gaps existed and carefully
1821 benchmarked the best practices of existing peer-based
1822 emotional support programs in America and abroad.

1823 In speaking with officials from the Departments of
1824 Defense and Veterans Affairs in 1993 and 1994, TAPS was able
1825 to determine where the federally-funded services ended and it
1826 was appropriate for private sector support to begin. I would
1827 offer special thanks for guidance in those early days to then
1828 Secretaries of Defense Cheney and Perry, Senators Bob Dole
1829 and Ted Stevens, and the Director of our sister organization

1830 | for police officers, Suzie Sawyer.

1831 | The military has a critical mission to meet. The
1832 | surviving families, likewise, have a mission: remembering the
1833 | life and grieving the loss of their loved one while honoring
1834 | their service and sacrifice.

1835 | TAPS provides an understanding embrace of care and
1836 | comfort. Through our peer-based emotional support network,
1837 | families are not only able to help others but, in doing so,
1838 | continue to help themselves. As Ralph Waldo Emerson said,
1839 | ``It is one of the most beautiful compensations of this life
1840 | that no man can sincerely try to help another without helping
1841 | himself.''

1842 | This network and the staff and infrastructure to support
1843 | it is made possible entirely through the generosity of
1844 | Americans who understand our mission and support our
1845 | non-profit organization.

1846 | A decade ago, then Chairman of the Joint Chiefs John
1847 | Shalikashvili looked carefully at our program, and when he
1848 | spoke at the TAPS National Military Survivor Seminar he told
1849 | our families, ``We can't do for you what you can best do for
1850 | each other.''

1851 | This solidified our mission and forged the bond that
1852 | exists to this day between TAPS and the military casualty
1853 | teams. After 9/11, TAPS served alongside the American Red
1854 | Cross as the only private organization inside the Pentagon

1855 Family Assistance Center. It is our partnership with the
1856 military that allows us to provide a comprehensive package of
1857 support to all who are grieving a loss.

1858 TAPS supports over 15,000 surviving family members in
1859 our database with 24-7 support, quarterly journals,
1860 invitations to regional and national events and weekly online
1861 support services.

1862 In the past year, TAPS has hosted 11 regional and
1863 national survivor seminars and Good Grief Camps, serving over
1864 2,500 family members. We provided TAPS Care Teams to support
1865 4 major national gatherings of surviving military families
1866 attended by over 5,000 people. We sent 5,236 TAPS Survivor
1867 Care Packages to grieving families, casualty officers and
1868 military installations supporting surviving families.

1869 Our call center received 8,844 calls from surviving
1870 families on our toll-free line. We averaged 750,000 web site
1871 hits per months, hosted 208 national online support group
1872 sessions, organized 24 TAPS Care Groups, trained 254 peer
1873 mentors to support newly grieving families, provided Care
1874 Team training to over 834 military members and DoD civilians,
1875 recruited and trained 465 military volunteers who serve as
1876 mentors to surviving children.

1877 We have expanded our services to support the families of
1878 1,000 civilian contractors who died while serving in Iraq and
1879 conducted outreach to the large population of

1880 Spanish-speaking surviving family members.

1881 To meet our mission, we must have a sophisticated
1882 technology and communications infrastructure and a staff who
1883 not only understand the military surviving family but who are
1884 also academically and professionally qualified.

1885 We are in the process of developing our next level of
1886 staffing and infrastructure to meet the demands of today.
1887 This will require TAPS to invest significant portions of its
1888 operational budget in the technology infrastructure and
1889 training that will enable to deliver critically needed
1890 support services to the surviving family members.

1891 Chairman WAXMAN. Ms. Carroll, your time is up. Do you
1892 want to conclude your testimony?

1893 Ms. CARROLL. Yes. I am sorry.

1894 On behalf of the families of our fallen heroes and TAPS,
1895 I appreciate the dedication and commitment of the
1896 distinguished members of the Committee to protect, defend,
1897 restore and improve the services provided to those who have
1898 served our Nation in peace and war and to their families, and
1899 to ensure the organizations who are seeking funds from a
1900 patriotic public use the funds wisely to meet essential
1901 mission requirements as dictated for the needs of the
1902 military and the families, not by the needs of the
1903 non-profit.

1904 [Prepared statement of Ms. Carroll follows:]

1905 ***** INSERT *****

1906 | Chairman WAXMAN. Thank you very much, Ms. Carroll.
1907 | Ms. Seman.

1908 STATEMENT OF PAMELA L. SEMAN

1909 Ms. SEMAN. Thank you, Chairman Waxman, Ranking Member
1910 Davis and distinguished members of the Committee for the
1911 opportunity to appear before you today on behalf of the
1912 Disabled Veterans Associations.

1913 My name is Pamela Seman, and I am the Executive Director
1914 of the Disabled Veterans Associations.

1915 Disabled Veterans Associations, which started in 1996,
1916 is a charitable organization registered under Ohio law. Its
1917 mission is to help improve the quality of life of our
1918 veterans through aiding and assisting needy and disabled
1919 veterans, their families and dependents, whether they have
1920 been hospitalized at one of the U.S. Department of Veterans
1921 Affairs medical centers, admitted to one of the 100 State-run
1922 and State-funded veterans homes or simply in need at home.

1923 We have developed a number of programs to assist
1924 veterans and have funded these programs through our
1925 fundraising efforts. Our organization accomplishes its goals
1926 with the assistance of only three paid employees.

1927 Statistics from the U.S. Department of Veterans Affairs
1928 are staggering. There are now more than 23 million living
1929 veterans. Nearly 2.2 million of these veterans suffer from a
1930 service-connected disability and nearly 40 percent are 65

1931 | years or older.

1932 | There are over 100 State-run, State-funded veterans'
1933 | long term care and domiciliary homes that provide care
1934 | exclusively to veterans and their spouses. Yet, four out of
1935 | five people you meet on the street have no such idea that
1936 | these facilities exist. Our public service announcements
1937 | inform the public and veterans that these State-run veterans
1938 | homes exist and are available to the men and women who gave
1939 | up so much for our freedom.

1940 | Our public service announcements can be heard on more
1941 | 3,500 radio stations nationwide. They inform the listener
1942 | that help is available to honorably discharged veterans. A
1943 | toll-free number is provided for the listener to obtain
1944 | information not only on the State-run homes but on any
1945 | veterans' issues they may have.

1946 | We offer gifts and grants to the State-run veterans
1947 | homes and the VA medical centers throughout the Country, so
1948 | they may provide veterans with day to day necessities that
1949 | they otherwise may not receive due to budgetary limitations.
1950 | We have provided everything from basic toiletries to
1951 | reconstruction and refurbishing an audiology room. These
1952 | gifts and grants have proven to be vital to the well being of
1953 | veterans in these facilities.

1954 | Our Helping and Assisting Veterans in Emergency Program
1955 | allows us to assist our veterans on a more individual basis.

1956 Many of these veterans are awaiting their benefits through
1957 the VA and find they are unable to pay their bills during the
1958 interim. By working hand in hand with county service offices
1959 and other agencies, we are able to assist veterans on a short
1960 term, beneficial basis. Veterans can receive a one-time gift
1961 to help them through their rough period. We assist with
1962 mortgages, rent, utilities and various other items.

1963 We also offer a veterans entrepreneurial training
1964 seminar program. The day-long seminars are available to all
1965 veterans free of charge. We include speakers from the Small
1966 Business Administration, the Service Corps of Retired
1967 Executives, certified lenders and State taxation departments.

1968 The program is designed to help veterans struggling with
1969 their small business or who are starting a small business.

1970 The Disabled Veterans Associations first entered into a
1971 fundraising contract with Civic Development Group in 1998. I
1972 became Executive Director in 2002. At that time, the
1973 contract was already in place for fundraising services
1974 provided by Civil Development Group.

1975 The first time a fundraising contract came up for review
1976 while I was Executive Director was in September of 2004. The
1977 percentages in the contract remained the same as they were
1978 from the beginning, 12.5 percent for us and 87.5 for Civic
1979 Development Group. I questioned the split and actually made
1980 inquiries with other vendors and learned that the percentages

1981 | were pretty much a standard in the industry.

1982 | Though we were unhappy with the split, CDG agreed to
1983 | provide us with a guaranteed minimum of 600,000 which was
1984 | more money than Disabled Veterans was able to raise under
1985 | past contracts. Under the arrangement, Civic Development
1986 | Group became a consultant. This appeared to be a good thing
1987 | for us because we were going to receive more money than we
1988 | had in the past and it would mean more money for our vital
1989 | programs.

1990 | My primary goal as Executive Director of this charity
1991 | was and is to raise as much money as possible to fund the
1992 | programs that we offer in order to make a difference in the
1993 | lives of veterans.

1994 | I would like to thank the Committee again for the
1995 | opportunity to be here today and would be pleased to answer
1996 | any questions.

1997 | [Prepared statement of Ms. Seman follows:]

1998 | ***** INSERT *****

1999 | Chairman WAXMAN. Thank you very much, Ms. Seman.
2000 | Mr. Friend.

2001 | STATEMENT OF ROBERT FRIEND

2002 | Mr. FRIEND. Mr. Chairman and members of the Committee, I
2003 | am here to testify today as President of American Veterans
2004 | Coalition and as a Vietnam veteran, regarding an
2005 | ever-increasing needful sector of our population, our
2006 | American veterans.

2007 | I served proudly for my Country in Vietnam. When
2008 | entering the Navy in late 1969, I was sent on four WESTPAC
2009 | tours of Alameda. The first two were on the U.S.S.
2010 | Bellatrix, and the next two were on the U.S.S. Pictor. We
2011 | acted in the capacity of a refrigerated reefer in the Tonkin
2012 | Gulf at sea for the grocery needs for those ships afloat. We
2013 | also acted as a freezer and refrigeration depot when the
2014 | Danang facility was bombed in early 1970.

2015 | In 1971, I was transferred to the Gator Fleet, assigned
2016 | to the LST 609 Clarke County. Our duty was that of moving
2017 | supplies up and down the Mekong Delta from as far south as
2018 | Vung Tau to Dong Dang which was our home base and as far
2019 | north as the Cambodian border.

2020 | I spent one and a half months recuperating at Great
2021 | Lakes Mental Hospital for a small wound, saw many amputees,
2022 | servicemen paralyzed and those who had sustained massive
2023 | injuries while in Vietnam. My last nine months of service

2024 | were that of being part of the First 34 to arrive on the
2025 | Ranger stationed at Diego Garcia in the Indian ocean. There,
2026 | we were part of the Seabees out of Quonset Point, Rhode
2027 | Island, responsible for building the initial runway and basic
2028 | infrastructure for those to follow.

2029 | So the veterans scene is not a foreign one to me. One
2030 | of the things I promised myself while there was to continue
2031 | to care for my fellow servicemen and others who entered
2032 | service before me or were to serve after me and who struggle
2033 | with assimilating back into society with their return.

2034 | AVC was founded with these things in mind in late 2002
2035 | to provide financial aid to needy veterans and their families
2036 | and to educate veterans on various Government and public
2037 | service programs available to them as well as educate the
2038 | public on the needs of and problems facing our Nation's
2039 | veterans.

2040 | The focus of our organization, aside from education on
2041 | veterans needs and issues, has been providing direct
2042 | assistance to individual veterans in need and their families
2043 | and making grants to VA hospitals, homeless centers and
2044 | non-profit veterans organizations who provide assistance to
2045 | veterans.

2046 | We have provided thousands of dollars in grants and aid
2047 | to individuals and organizations in Los Angeles at the
2048 | National Veterans Foundation. We came to an agreement and

2049 developed a program where they receive calls and immediately
2050 send them to us via phone or our web site.

2051 All the veterans have to do is go to our web site into
2052 assistance, pull down the forms, fill them out to the best of
2053 their ability and send them on to us. We move very fast on
2054 the applications for those in need of help. We ask that they
2055 send us a letter and let us know how they are doing and
2056 revisit their situation on many occasions, helping some
2057 veterans two or three times a year.

2058 We also ask our professional fundraising counsels to
2059 send us any names of veterans they come across that need help
2060 as well, and we act on those as well as quickly as we can.

2061 We are striving to be more efficient in our fundraising
2062 so that we may make our program services available on a
2063 continuously increasing basis. This is a slow process but
2064 can and will come to fruition as other alternate activities
2065 are entered for that of raising monies without the assistance
2066 of professional fundraisers.

2067 I have been with the American Veterans Coalition since
2068 its inception and am the Fundraising and Program Service
2069 Director. I spend a significant amount of my week in service
2070 to the organization. The organization is small and has
2071 limited resources.

2072 As you can see from the financial information we
2073 supplied in response to your invitation to be here today, the

2074 organization has three employees, one of whom is my wife.
2075 She and I both draw minimal salaries although her service to
2076 the organization entails financial recordkeeping, fundraising
2077 regulation compliance issues, corresponding with contracted
2078 fundraisers and other activities that take up most of her
2079 week. We receive no other fees or payments from the
2080 organization.

2081 Like my other colleagues present here today, we can
2082 appreciate the Committee's interest in fundraising efficiency
2083 and the cost associated with raising funds to help our
2084 veterans. We are proud of our program service
2085 accomplishments. We know we can be more efficient and
2086 continue to strive to lower our cost of fundraising.

2087 As I stated previously, we are a small organization.
2088 Without the help of outside fundraisers, we would not be able
2089 to disseminate the information we are able to get out to
2090 veterans and the public, and we would not be able to raise
2091 enough funds to continue as a going concern.

2092 We maintain fundraising registration with all States
2093 that require same and provide significant information to
2094 those State agencies when information is designed to be
2095 available to the public. We are completely transparent on
2096 our fundraising, accounting and other operations.

2097 We have taken steps beginning in the early part of this
2098 year to scale back our use of outside fundraisers and to

2099 | consult with counsel and other professionals on steps we can
2100 | continue to take to lessen our fundraising costs.

2101 | It is evident that there remains a significant number of
2102 | people who were put off with organizations that incur high
2103 | costs of fundraising. We aren't proud to be one of those
2104 | organizations but still believe that the First Amendment has
2105 | given us the opportunity to make some differences in the
2106 | veterans' world.

2107 | Despite some of our inefficiency, we are still able to
2108 | reach a multitude of people with information about veterans
2109 | and veterans issues that would otherwise not reach those
2110 | people. No one is forced to contribute to our organization
2111 | or listen to our message. However, we hope that the steps we
2112 | are taking continue to allow us to deliver our message while
2113 | generating significant revenues that can go directly to
2114 | benefit our Nation's veterans.

2115 | I was proud to serve our Country and believe that
2116 | American Veterans Coalition can make a significant difference
2117 | in the lives of veterans. I have a personal interest as a
2118 | veteran of the Vietnam War in making such a difference and
2119 | hope the American Veterans Coalition can strive to do bigger
2120 | and better things to help my fellow veterans in the future.
2121 | I believe we are taking steps to do that in a better and much
2122 | more efficient manner.

2123 | Thank you.

2124 [Prepared statement of Mr. Friend follows:]

2125 ***** INSERT *****

2126 | Chairman WAXMAN. Thank you, Mr. Friend.

2127 | Mr. Borochoff.

2128 STATEMENT OF DANIEL BOROCHOFF

2129 Mr. BOROCHOFF. Hello. I am Daniel Borochoff with the
2130 American Institute of Philanthropy. I am gratified that we
2131 are holding this session today. It is going to be a really
2132 big help.

2133 I am gratified for Mr. Burton that his interest in
2134 furthering legislation to help donors make more informed
2135 giving decisions. Right now, there is incredible waste out
2136 there, and it is being done in the name of our brave
2137 veterans. We really owe a lot. We owe a lot more to the
2138 veterans than too many of these nonprofit groups are
2139 providing.

2140 The American Institute of Philanthropy, since 1993, has
2141 been one of the most independent and toughest watchdogs. We
2142 are not afraid to give an F grade when it is called for.

2143 If there is one point that I want people to be able to
2144 walk away from today, to understand that we have these
2145 numbers and percentages out there. A lot of the groups are
2146 able to make themselves look good and appear as if most of
2147 the money is going to charitable programs when in fact that
2148 is not at all the case. That is why some of these ratings
2149 and ratios that we are putting out there are helping the
2150 public have a clear sense as to how the money is actually

2151 | being spent.

2152 | I am going to focus on four key areas. First,
2153 | fundraising efficiency, it is too low with these veterans'
2154 | charities; second, low accountability; third, excessive asset
2155 | reserves with some of the charities; and the misuse of
2156 | Congressional Charter status.

2157 | First, I will describe our rating system. We give
2158 | groups an F grade if they have 35 percent or less of bona
2159 | fide charitable programs. They may be saying things are
2160 | charitable programs, but it is not at all what the donating
2161 | public thinks, and I will get into that.

2162 | We believe that if your fundraising costs are \$60 or
2163 | more, \$60 of \$100, that deserves an F. If you are holding
2164 | asset reserves in excess of five years, that deserves an F.
2165 | We consider three years to be excessive.

2166 | Most of the charities that we rate do a good job.
2167 | Seventy-eight percent of the groups get C or higher grades.
2168 | But with the veterans' groups, this is also true for police
2169 | and firefighter type groups, 75 percent of them get Ds and
2170 | Fs, certainly not adequate.

2171 | One of the main reasons is the very high fundraising
2172 | costs that they incur. This is what is happening. Many of
2173 | these veterans' charities and a lot of the major ones are
2174 | broadly soliciting everybody under the sun. It is ironic
2175 | because they are one of the most very popular causes, so they

2176 | ought to be able to raise money more inexpensively than
2177 | anybody else.

2178 | But what they are doing is they are asking everybody,
2179 | and they are going for little \$5 and \$3 contributions. It is
2180 | too expensive to raise money that way. You have to go \$25,
2181 | \$50, \$100 contributions.

2182 | They are sending out trinkets, address labels, greeting
2183 | cards, things that cost money to send out because they know
2184 | many people feel guilty and send a few dollars in return, but
2185 | that is not a way to build loyal long term supporters to get
2186 | little contributions here and there because somebody got a
2187 | gift and feels they should respond.

2188 | Accountability is a big problem. Fifty-nine percent of
2189 | the veterans' groups that we rate are not willing to provide
2190 | basic financial documentation on their activities. That is
2191 | the first screen. If a group is not willing to answer basic
2192 | questions about their finances and other areas, one should
2193 | look elsewhere about giving to them.

2194 | The tax forms, while widely available on the internet,
2195 | are very helpful but a lot of them are dated with information
2196 | being like a year or two old.

2197 | We encourage donors to look at the audited financial
2198 | statements and notes. It is a lot more solid document. You
2199 | can find out things where maybe they denied it on the tax
2200 | form, but you can see it happening on the audit.

2201 But the trouble is audits are hard to obtain. They are
2202 with a lot of States. Some of the States have them. A few
2203 of the States have them, but they are hard to get a hold of.

2204 This is what is going on. A lot of people don't realize
2205 this, but you know those telemarketing calls that interrupt
2206 your dinner or all the solicitations that we talked about
2207 flooding your mailbox. A lot of that is counted as a program
2208 service.

2209 What they can do according to the accounting rules is
2210 they can put a little nice message in like, Hire a Vet,
2211 Buckle Your Seatbelts, Fly Your U.S.A. Flag, put a magnet on
2212 your refrigerator that shows you care about vets, and then
2213 they can allocate those solicitations costs as a charitable
2214 program. It shows up on the tax form this way and gets
2215 reported on the internet this way. It is in the charity's
2216 promotion this way. The public needs to know what is really
2217 going on with the finances.

2218 Another thing that goes on are in-kind donations.
2219 Things of highly questionable value are flowing through these
2220 charities' financial statements. The person giving that gets
2221 a tax deduction, and then the charity can show that they are
2222 having like millions of dollars worth of things that really
2223 are not much value to veterans. Then they pass them on to
2224 another group.

2225 Okay, another problem is excessive asset reserves.

2226 | Unfortunately, three of the major military charities have
2227 | high asset reserves. In fact, Army Emergency Relief makes
2228 | the top of our list. They could operate for 17.6 years with
2229 | what they have already got. They have over \$300 billion in
2230 | reserve.

2231 | We consider it a poor basis to ask for more money if you
2232 | already have more than five years in reserves. Part of the
2233 | problem is the people that are allowed to access this money
2234 | are not able to access it because they have too tight of
2235 | rules of who the money is made available to.

2236 | One final point on the Congressional Charter status
2237 | since this is Congress. A number of the charities like to
2238 | boast of their Congressional Charter status, and the public
2239 | thinks that that means somehow they are better or superior or
2240 | they are good groups, but it doesn't.

2241 | I think that these charities ought to be required to
2242 | state. If they want to say they are Congressional Chartered,
2243 | they need to state that it does not imply endorsement or
2244 | recommendation by Congress.

2245 | [Prepared statement of Mr. Borochoff follows:]

2246 | ***** INSERT *****

2247 Chairman WAXMAN. Thank you very much, Mr. Borochoff. The
2248 rest of that statement is going to be in the record. Your
2249 time is up.
2250 Mr. Weiner.

2251 | STATEMENT OF BENNETT WEINER

2252 | Mr. WEINER. I am Bennett Weiner. I am Chief Operating
2253 | Officer of the BBB Wise Giving Alliance.

2254 | Mr. Chairman and members of the Committee, thank you for
2255 | inviting us here today to share our views on this important
2256 | subject.

2257 | The BBB Wise Giving Alliance is a charity-monitoring
2258 | organization. We are affiliated with the Council of Better
2259 | Business Bureaus, the national office of the Better Business
2260 | Bureau system, and we evaluate charities in relation to 20
2261 | accountability standards. In fact, under various names, we
2262 | have been doing this work for almost a century.

2263 | About 45 percent of the 114 local Better Business
2264 | Bureaus have a similar program for local charity evaluation.
2265 | We don't charge charities for our evaluation, and the
2266 | resulting reports are free to the public.

2267 | Certainly, veterans' charities fill a very important
2268 | need in society for current and former members of the Armed
2269 | Services and their families, and I am pleased to say a number
2270 | of these organizations meet our standards. However, we have
2271 | also seen some concerns.

2272 | Currently, we find that about half, 50 percent, of all
2273 | the veterans charities we contact do not provide any of the

2274 requested governance, financial program and fundraising
2275 information needed to complete our evaluations. This 50
2276 percent non-disclosure rate is significantly higher than the
2277 30 percent non-disclosure rate that we see for the 1,200
2278 national charities that are the subject of our reports.

2279 While participation in our evaluation service is
2280 voluntary, it certainly suggests to us that many veterans'
2281 charities have a way to go in demonstrating accountability.

2282 Now for those charities that do provide the requested
2283 information to our office, we generally find that overall
2284 about 65 percent of all the charities meet our standards.
2285 However, of the veterans' charities that we evaluate that
2286 provide information, we find a significantly lower number of
2287 veterans' charities meeting our standards, less than 40
2288 percent of them.

2289 It is difficult to say that there is no single reason
2290 they don't meet standards. Some of these organizations are
2291 relatively new, created in the past few years. But the
2292 reason that they don't meet standards is not solely because
2293 of financial issues. Financial issues, we feel, don't
2294 provide the full picture of accountability.

2295 The accountability issues in our standards in terms of
2296 these organizations range from conflict of interest policies
2297 not being present, insufficient frequency of governing board
2298 meetings to problems with donor privacy, the accuracy of the

2299 | way expenses are reported on financial statements among other
2300 | things.

2301 | Now, in our view, the message for donors, we think, is
2302 | to be proactive in making giving decisions, to check with
2303 | outside sources such as the BBB Wise Giving Alliance and
2304 | others in making an informed giving decision, and that can
2305 | certainly go a long way.

2306 | I do want to make one comment in response to Congressman
2307 | Sarbanes' earlier questions about accreditation seals. We do
2308 | have such a program at the BBB Wise Giving Alliance, an
2309 | accreditation seal for charities that do meet our standards.
2310 | I am pleased to say that about 200 of the 1,200 national
2311 | charities that we evaluate display the seal indicating they
2312 | meet our standards on their web sites and in their appeals,
2313 | and we think that is a program that is having an impact.

2314 | So, thank you again for allowing us to share our
2315 | comments, and I will be happy to answer any questions that
2316 | you might have.

2317 | [Prepared statement of Mr. Weiner follows:]

2318 | ***** INSERT *****

2319 Chairman WAXMAN. Thank you very much.
2320 Than you very much, all of you, for your testimony.
2321 The purpose of this hearing is to examine whether
2322 donations to veterans' charities are getting to the people
2323 who need them. So, Mr. Weiner, your view is that of all the
2324 charities, the veterans' charities seem to be the most out of
2325 line in terms of the small amount of money that is actually
2326 going to veterans' care. Is that an accurate statement?

2327 Mr. WEINER. I don't know if I could say if they are the
2328 most out of line because we evaluate so many different types
2329 of organizations, but clearly in what we have seen there is
2330 less of a degree of cooperation with our self-regulatory
2331 process. About half of them don't even send us information
2332 on request and a higher degree of non-compliance with the
2333 standards that we have. So, yes, I would agree that that is
2334 an issue that concerns us as well.

2335 Chairman WAXMAN. Mr. Borochoff, what would you say is an
2336 appropriate proportion of the resources a charity is spending
2337 on fundraising? Would you give us a number you think is okay
2338 to spend on fundraising?

2339 Mr. BOROCHOFF. Well, it should be \$35 or less. The
2340 problem is charities are saying things. They are labeling
2341 things. They are disguising their fundraising costs and
2342 calling them programs.

2343 Chairman WAXMAN. Well, we put together a chart based on

2344 | what these veterans' charities spend on fundraising and
2345 | program services, and I would like to put it on the screen.
2346 | The chart is based simply on the numbers that they report on
2347 | their Form 990 reports to the IRS.

2348 | Mr. Friend, in fiscal year 2006, you reported to the IRS
2349 | that approximately 59 cents of every dollar donated to
2350 | American Veterans Coalition was spent on fundraising costs.

2351 | Ms. Seman, according to your tax returns, approximately
2352 | 71 cents of every dollar donated to Disabled Veterans
2353 | Associations in fiscal year 2006 went to pay for fundraising
2354 | and not for programs.

2355 | In fact, that is what you reported to the IRS, but these
2356 | numbers are actually worse because your organizations count
2357 | many of your fundraising materials as program activities.

2358 | Mr. Borochoff mentioned that.

2359 | You call them program activities that help veterans when
2360 | you send out a solicitation that includes some language about
2361 | the plight of veterans or when you say that the fundraising
2362 | letter is actually a charitable service because it is
2363 | educating the public about the plight of veterans.

2364 | Let me give you some examples. Well, one is American
2365 | Veterans Coalition, and it has information about the plight
2366 | of the veterans themselves, the face of veterans in need.

2367 | So, when you report to the IRS, you report only a
2368 | portion of the costs to produce this mailer under

2369 fundraising. That is allowed under the accounting rules. Am

2370 I right about this, Ms. Seman?

2371 Ms. SEMAN. Yes, you are correct.

2372 Chairman WAXMAN. And, Mr. Friend?

2373 Mr. FRIEND. Yes, I agree.

2374 Chairman WAXMAN. So, Mr. Borochoff, what do you think of

2375 these practices when they claim that some of the fundraising

2376 costs are actually services to the veterans?

2377 Mr. BOROCHOFF. The donors don't know this is what is

2378 going on, and I think the charity ought to tell the public

2379 when they solicit money, to say that 80 percent of the money

2380 is going to pay for the solicitation that you are reading.

2381 The accounting rules are very flexible, and they allow

2382 for a lot of different ways of reporting this information.

2383 Chairman WAXMAN. Well, we made a chart that indicates

2384 what the actual figures would be if you claimed that these

2385 are fundraising expense and not the services for veterans.

2386 We look at these numbers, and it is clear that the

2387 American Veterans Coalition is spending over three-quarters

2388 of the money it raises on fundraising expenses, salaries and

2389 overhead. Less than 25 cents of every dollar goes to help

2390 veterans.

2391 The numbers are even worse for Disabled Veterans

2392 Associations. Over 90 percent of the money you raise goes to

2393 fundraisers. Less than 10 percent actually helps veterans.

2394 Mr. Friend and Ms. Seman, how can you justify what you
2395 are doing? The money you are raising is enriching the
2396 fundraisers and yourselves, and virtually none of it is going
2397 to actually helping the veterans when you look at such a
2398 small percentage for actual services?

2399 Mr. FRIEND. In a sense, that is true. Unfortunately,
2400 the only way a small start-up charity can exist and move into
2401 the spectrum of making direct support with its own tap base
2402 is by using professional fundraisers. Their fees are
2403 exorbitant. I mean we are probably between 80 and 85 percent
2404 with any professional fundraiser that we bring into our fold.

2405 We do want their tap base. We want to use it for
2406 traditional mail later on. We want to mail and raise money
2407 under our own guise, not with professional fundraisers, and
2408 we are trying to move into other programs so those numbers
2409 can reflect true numbers and not what you are talking about.

2410 Chairman WAXMAN. Well, how long have you been in
2411 existence?

2412 Mr. FRIEND. I am sorry?

2413 Chairman WAXMAN. How long has your organization been in
2414 existence?

2415 Mr. FRIEND. We incorporated in 2002.

2416 Chairman WAXMAN. So, for five years, you used
2417 professional fundraisers.

2418 Mr. FRIEND. That is correct.

2419 Chairman WAXMAN. Ms. Seman, how long have you been in
2420 existence, and how can you justify this kind of expenditure,
2421 less than 10 percent going to help veterans?

2422 Ms. SEMAN. Part of the problem we have found is these
2423 fundraisers ask for very long contracts with exclusive and
2424 non-compete clauses in them and, across the board, every
2425 telemarketer and every direct mail I researched asked us for
2426 the same thing. We get locked into these long contracts, and
2427 we can't get out, and we have no other means of raising money
2428 on our own.

2429 Chairman WAXMAN. Well, it is not just small start-up
2430 charities. Mr. Chapin's group raised, what was it, \$98
2431 million. They have been around for some time. Less than 10
2432 percent is going to help veterans in that organization.

2433 So I find it unconvincing that small start-ups need this
2434 extra expenditure when so little is actually going to the
2435 veterans.

2436 Mr. Davis.

2437 Mr. DAVIS OF VIRGINIA. Thank you.

2438 I am not sure where to start. It is not that the groups
2439 may not be trying to help veterans, but the fact is that
2440 people who are donating need to understand that their money
2441 is not going to help veterans. That is really the problem,
2442 and maybe they want to put it somewhere else where their
2443 money would go directly.

2444 So I don't want to question anybody's motives in terms
2445 of what they are trying to do, but the people out there who
2446 are soliciting. Many of them are seniors on fixed incomes,
2447 but they just want to do something to help people who have
2448 given some to their Country. They send you \$10 and less than
2449 \$1 is going directly to help veterans in some cases.

2450 Ms. Seman, what is the Disabled Veterans Associations
2451 going to do in the next year to try to improve the
2452 fundraising ratios we have talked about?

2453 Ms. SEMAN. We are still deciding what we are going to
2454 do, but we are not going to hire another professional. We
2455 are going to do it on our own.

2456 Mr. DAVIS OF VIRGINIA. I mean your argument, as I
2457 understand, is you have a higher net by going with a
2458 professional route.

2459 Ms. SEMAN. Right.

2460 Mr. DAVIS OF VIRGINIA. I understand that. You want to
2461 help people. You have more money to hand out and do public
2462 good. Our job here is not just to look after the end result
2463 but also to look at the people how are donating, and that is
2464 really our concern.

2465 Mr. Friend, what are you going to do next year?

2466 Mr. FRIEND. We are looking into some conservative
2467 events. It wouldn't be a golf event because of inclement
2468 weather or something like that, where we would be trapped

2469 | into a lot of expenses and not being able to raise the money,
2470 | for instance. We want something that can be a proven winner
2471 | for us.

2472 | We are raising money, starting to raise money on our own
2473 | without professional fundraisers. We think that can be or
2474 | that will be a big step forward. However, it is quite
2475 | surprising when you look at those numbers even in-house, how
2476 | much it actually costs to raise money even on your own when
2477 | you take into account the printing and the envelopes.

2478 | Mr. DAVIS OF VIRGINIA. Mr. Friend, you are talking up
2479 | here to someone who has been Chairman of the Republican
2480 | Campaign Committee in the House for two cycles and knows
2481 | something about direct mail and phone solicitation and Mr.
2482 | Van Hollen, who is the current Democratic Chair.

2483 | Mr. FRIEND. Well, I was speaking from my perspective.

2484 | Mr. DAVIS OF VIRGINIA. Well, it is the same. In fact,
2485 | we have more restrictions.

2486 | I understand. I mean I understand the difficulty, but I
2487 | think at the end of the day, what we look at is the people
2488 | that you are soliciting and what they are giving and should
2489 | they, in fact, now that their money is not going for the
2490 | intent that it is solicited.

2491 | Let me ask this, Mr. Friend. How many other charitable
2492 | organizations do you have?

2493 | Mr. FRIEND. We have three other organizations.

2494 Mr. DAVIS OF VIRGINIA. Are they all about the same in
2495 terms of using the same outsourcing for raising money?

2496 Mr. FRIEND. That is correct.

2497 I am sorry. You mean professional fundraising?

2498 Mr. DAVIS OF VIRGINIA. Yes.

2499 Mr. FRIEND. Yes.

2500 Mr. DAVIS OF VIRGINIA. You use the same fundraiser for
2501 all the groups?

2502 Mr. FRIEND. No. Some, we do.

2503 Mr. DAVIS OF VIRGINIA. In 2005, the Hartford Courant did
2504 an investigative story on veterans' charities. It is still
2505 on the Charity Navigator web site, which is another charity
2506 watchdog group.

2507 Your charity is mentioned first as paying staggering
2508 costs to a telemarketer that pocketed 85 percent of every
2509 dollar you raised. This is back in 2003. Is that correct?

2510 Mr. FRIEND. Yes, I think so.

2511 Mr. DAVIS OF VIRGINIA. What would you do to correct
2512 that? Would you change?

2513 Mr. FRIEND. Well, we are starting to work on traditional
2514 mail, traditional and direct mail.

2515 Mr. DAVIS OF VIRGINIA. Let me just ask this. Are you
2516 still using that same telemarketer?

2517 Mr. FRIEND. I can't answer that accurately because I
2518 would have to go look. I don't have those numbers or those

2519 telemarketers in front of me if they are still

2520 Mr. DAVIS OF VIRGINIA. Mr. Borochoff, can you add? Can
2521 you shed any light on that, Mr. Borochoff?

2522 Mr. BOROCHOFF. It is the same telemarketer.

2523 Mr. FRIEND. Sir, what is your question?

2524 Mr. DAVIS OF VIRGINIA. I guess my question is if you
2525 have a telemarketer that you are hiring that is taking 85
2526 percent for every dollar?

2527 Mr. FRIEND. Yes. Yes, we do.

2528 Mr. DAVIS OF VIRGINIA. You are still using them?

2529 Mr. FRIEND. Yes, we do.

2530 Mr. DAVIS OF VIRGINIA. Do you think that is fair to the
2531 donors that are solicited?

2532 Mr. FRIEND. I don't think it is fair at all. I think it
2533 is the only way for a start-up charity to generate enough
2534 money to spread its wings and be able to fly independently of
2535 using professional fundraisers. I know.

2536 Mr. DAVIS OF VIRGINIA. That was 2003. You are no longer
2537 a start-up, and you have three other charities going.

2538 Mr. FRIEND. No, we are not a start-up. It just takes a
2539 long, quite grueling number of years to get where you are
2540 independent, a lot longer than any of us wish it would.

2541 Mr. DAVIS OF VIRGINIA. The IRS 990 form for the American
2542 Veterans Coalition tells a sad story provided based on
2543 donations received. In 2003, it says nothing went to

2544 veterans. In 2004, 1.4 percent.

2545 What improvements are you making to see that more of the
2546 money you raise goes to veterans programs and, in general,
2547 what percentage of money you raised this past year do you
2548 think will go directly to veterans services, not solicitation
2549 costs?

2550 Mr. FRIEND. I don't think our numbers are going to be
2551 that much better. They are a little better this year, but
2552 next year they should probably improve, and if they don't
2553 improve every year, quite frankly, we are in the wrong
2554 business.

2555 Mr. DAVIS OF VIRGINIA. I can say that again. Thank you.

2556 Chairman WAXMAN. Thank you, Mr. Davis.

2557 Mr. Van Hollen.

2558 Mr. VAN HOLLEN. Thank you, Mr. Chairman.

2559 In your statement, Mr. Friend, you said that nobody is
2560 forced to contribute to your organization.

2561 Mr. FRIEND. That is correct.

2562 Mr. VAN HOLLEN. That, of course, is true. They want to
2563 contribute to your organization because you solicit them on
2564 the phone, telling them they are going to do good things for
2565 veterans.

2566 In fact, the Hartford Courant that my colleague, Mr.
2567 Davis, referred to in 2005 has part of the script: the
2568 American Veterans Coalition is dedicated to helping veterans

2569 | right here, fill in the name of the State, who are homeless
2570 | or in desperate need. The foundation provides assistance to
2571 | these veterans in the form of food, shelter, clothing, job
2572 | search assistance and any other reasonable request.

2573 | That is why people are giving to you because they think
2574 | the money that is going to you when they give you a dollar,
2575 | that most of it is going to help veterans, and so I think a
2576 | lot of them would be very surprised and extremely disturbed
2577 | to find out exactly what is going on.

2578 | Now, as I understand it, you have been at this, as you
2579 | described it, a business, for a very long time. Beginning in
2580 | 1999, you founded a non-profit called Abundant Life
2581 | Foundation in California. Is that correct?

2582 | Mr. FRIEND. That is correct.

2583 | Mr. VAN HOLLEN. When you did that, you hired a man named
2584 | Mitch Gold to conduct a telemarketing fundraising for your
2585 | organization. Is that correct?

2586 | Mr. FRIEND. That is also correct.

2587 | Mr. VAN HOLLEN. Mr. Gold, as I am sure you know, a
2588 | notorious figure in the world of charitable organizations.
2589 | In fact, in 2002, a Federal judge sentenced him to eight
2590 | years in prison for charity fraud before he was caught, he
2591 | was apparently making \$10 million a year, operating dozens of
2592 | non-profit organizations. Those were supposed to be helping
2593 | firefighters, police officer, children and veterans.

2594 The Orange County Register, a newspaper in California,
2595 of course, characterized you as part of Mr. Gold's "money
2596 machine." Do you recall that article?

2597 Mr. FRIEND. Of course, it is completely incorrect.

2598 Mr. VAN HOLLEN. But you hired him. Let me just say
2599 this. They are saying here he went to prison in 2002. You
2600 moved to Washington State, as I understand it. Is that
2601 correct?

2602 Mr. FRIEND. That is correct.

2603 Mr. VAN HOLLEN. And began four operations, charitable
2604 operations: National Association for Disabled Police
2605 Officers, the Disabled Firefighters Foundation and the
2606 Children's Cancer Assistance Program. Is that correct?

2607 Mr. FRIEND. That is correct.

2608 Mr. VAN HOLLEN. These groups, you have testified,
2609 operate under the same sort of approach with the
2610 telemarketers? Is that right?

2611 Mr. FRIEND. Yes.

2612 Mr. VAN HOLLEN. How is it that you are really being that
2613 different in the sense of Mr. Gold's kind of operation?

2614 It sounds like you set up businesses that are very
2615 appealing to the public, charities from children's cancer on
2616 the one side to veterans, and you are raising a lot of money,
2617 but very little of that money is going, at the end of the
2618 day, to the people who all those callers, who want to help,

2619 | hope it will go to.

2620 | Mr. FRIEND. I can't speak for Mitch Gold, for Mitchell
2621 | Gold. I wasn't a disciple of his, and a lot of the things
2622 | that were written are incorrect insomuch as they say I was a
2623 | pupil or he was a mentor. That is totally incorrect.

2624 | He raised money for us when we first got into this
2625 | business. Unbeknownst to the way we should do it, he gave us
2626 | a contract, if I recall, where he gave us so much money a
2627 | week and he kept the difference. He even went so far as
2628 | doing his own banking, as conducting his own banking. That
2629 | is a deal-breaker for us.

2630 | If we can't control the purse strings and the banking
2631 | and know where this money is going and can account for
2632 | everything, we don't want anything to do with anybody in any
2633 | other way, shape or fashion.

2634 | Mr. VAN HOLLEN. Let me ask you this, Mr. Friend. If you
2635 | had a choice as an individual to give between two charitable
2636 | organizations, one of which gave a lot more to the ultimate
2637 | beneficiary than the other, you would choose the one with the
2638 | ultimate gain, right?

2639 | Mr. FRIEND. I would give to the one that gave a lot
2640 | more.

2641 | Mr. VAN HOLLEN. There are lots of organizations out
2642 | there to help veterans, isn't that right?

2643 | Mr. FRIEND. True..

2644 Mr. VAN HOLLEN. A lot of them give more of every dollar
2645 that is contributed to the veterans services, isn't that
2646 right?

2647 Mr. FRIEND. That is correct.

2648 Mr. VAN HOLLEN. So, as an individual, you would give to
2649 one of these other organizations before your organization,
2650 isn't that right?

2651 Mr. FRIEND. At this time, I would. I hope that in the
2652 future we grow into the area where you will want to give to
2653 our organization.

2654 Mr. VAN HOLLEN. Well, I think it is clear you would not,
2655 as an individual, trying to make sure your monies were used
2656 to the help benefit veterans.

2657 Mr. FRIEND. At this time.

2658 Mr. VAN HOLLEN. Let me ask you this. Do you have any
2659 objection to disclosing publicly on a web site or your
2660 materials how much of every dollar goes to fundraising
2661 operations and costs, including the ones Mr. Waxman raised
2662 with respect to the literature, and ho much actually goes to
2663 veterans? Do you have any objection to that?

2664 Mr. FRIEND. Well, we certainly do it over the phone. I
2665 don't know how.

2666 Mr. VAN HOLLEN. Oh, you call over the phone and you tell
2667 people that only 15 cents.

2668 Mr. FRIEND. No, no. If someone asks us the question.

2669 Mr. VAN HOLLEN. I am asking you if you have any
2670 objection to putting on your web site or on your literature
2671 that you send out exactly how much is actually going to the
2672 veterans. Do you have an objection to that?

2673 Mr. FRIEND. I wouldn't be happy with it, but I suppose I
2674 would adhere to it.

2675 Mr. VAN HOLLEN. Right. Why wouldn't you be happy
2676 telling people how their money is being spent?

2677 Mr. FRIEND. Because, unfortunately, all the charities in
2678 the Country do hide behind what they call joint cost
2679 allocation, and the only way you can grow to a point where
2680 you can be and utilize that.

2681 Mr. VAN HOLLEN. But you wouldn't mind if all charities
2682 had to disclose, you are saying, if all charities had to
2683 disclose?

2684 Mr. FRIEND. Oh, if all charities did? Absolutely not.

2685 Mr. VAN HOLLEN. Right, but then everybody would know
2686 that less of the money they gave to you went to veterans than
2687 other organizations, correct?

2688 Mr. FRIEND. I think that would be all right as long as
2689 it is the same playing field for everyone.

2690 Mr. VAN HOLLEN. I think it is important for people to
2691 know where there is money going. We want to make sure that
2692 people have confidence that when they are contributing to
2693 veterans, it is going to veterans.

2694 Mr. FRIEND. No. I agree as long as it was the same
2695 playing field.

2696 Mr. VAN HOLLEN. Thank you, Mr. Chairman.

2697 Chairman WAXMAN. Thank you, Mr. Van Hollen.

2698 Mr. Burton.

2699 Mr. BURTON. Yes, I just have a couple questions.

2700 I was interested. This Mr. Mitch Gold, how did you meet
2701 that fellow?

2702 Mr. FRIEND. I met him through an individual that was
2703 working at the time for Shiloh Ministries, that wanted to
2704 bring in some products from China. At the time before the
2705 advent of the internet, it was much easier to broker and act
2706 in a broker capacity.

2707 Mr. BURTON. Had he had any trouble with the law before
2708 he affiliated himself with you?

2709 Mr. FRIEND. I wasn't privy to that, sir.

2710 Mr. BURTON. Did you do any kind of a background check on
2711 him or anything?

2712 Mr. FRIEND. No, no, I didn't. No.

2713 Mr. BURTON. When you are talking about the kinds of
2714 money that you are talking about, it seems to me that you
2715 would want to know whether or not somebody has some kind of a
2716 problem.

2717 Mr. FRIEND. Now, we do.

2718 Mr. BURTON. You do now?

2719 Mr. FRIEND. Now.

2720 Mr. BURTON. How much did he get away with? They
2721 estimate \$10 million before he went to jail?

2722 Mr. FRIEND. Well, again, I am not privy to the
2723 background on what exactly happened to Mitch Gold. I know it
2724 was a lot, but at that time I didn't know. I didn't have
2725 knowledge of it. That is all I can attest to.

2726 Mr. BURTON. But when you are talking about that kind of
2727 money, I mean I had a business, and I didn't deal with
2728 anything like that, and we sure checked everybody out before
2729 I did business with them.

2730 Mr. FRIEND. Well, again, that was when we first got into
2731 the business, and we were given so much a week.

2732 Mr. BURTON. How about these new charities that you have?
2733 Do you check the people out that you are dealing with there?

2734 Mr. FRIEND. Yes, we do, and I also make a point of going
2735 whenever I can, as possible, and lumping some of these
2736 vendors together. I make a point of going out and visiting
2737 their organizations, looking at the way they raise money, and
2738 I pay some pretty close scrutiny to it.

2739 Mr. BURTON. I just want to follow up with one more
2740 question, and I will yield to Mr. Shays.

2741 That is I don't understand why all the charities don't
2742 divulge when they are soliciting money, the amount of money
2743 and the percent that is going to go to the charity involved.

2744 I think everybody ought to do that.

2745 I know it would discourage some people from giving to
2746 some charities. I mean I saw some on this list I have given
2747 money to that I wouldn't after that. But if everybody did
2748 it, I think that the public deserves to know that.

2749 I know it would be a difficult thing for some of you
2750 folks out there because of the margin of profit that you are
2751 making, but I think that that is one of the things we ought
2752 to look at legislatively.

2753 In the Supreme Court decision, did they say anything
2754 about, in any of those decisions, that you did not have to
2755 divulge the amount of money that was being used for overhead
2756 and the amount that was going to the charity? Was there
2757 anything in any of the decisions?

2758 Mr. FRIEND. Is this directed to me?

2759 Mr. BURTON. Any of you?

2760 Mr. BOROCHOFF. Well, what is interesting about that
2761 decision, as long as you don't go out and lie and specify a
2762 certain amount, you are okay.

2763 Mr. BURTON. What I am wondering is it has not been
2764 tested in the court that the legislative branch of Government
2765 could mandate that the percentage that is going for the
2766 charity and the percentage that is going for overhead be
2767 divulged. What I am trying to make is it has not been tested
2768 in court from what I have heard today.

2769 Mr. BOROCHOFF. There has been like four cases, four
2770 Supreme Court cases, to my knowledge, concerning this issue,
2771 as a First Amendment issue, highly controversial.

2772 Mr. BURTON. In that First Amendment issue you are
2773 talking about, did it say specifically that they did not have
2774 to be required to divulge the amount that was going for
2775 overhead and the amount that was going for the charity.

2776 Mr. BOROCHOFF. Yes, at point of solicitation, they are
2777 not required to.

2778 Mr. BURTON. So, they are not required to, and the
2779 Supreme Court upheld that? All right, okay.

2780 I yield back.

2781 Chairman WAXMAN. Thank you, Mr. Burton.

2782 Mr. Cummings.

2783 Mr. CUMMINGS. Thank you very much, Mr. Chairman.

2784 I must tell you, Mr. Friend and Ms. Seman, that this
2785 testimony has been a bit painful and, in my opinion, you give
2786 reputable charities a bad one. That is why I want to ask Ms.
2787 Carroll just a few questions about TAPS.

2788 Ms. Carroll, it appears to be more efficient in they
2789 seem to be more efficient at fundraising. We have heard that
2790 many of these other organizations use for-profit corporate
2791 fundraisers to do direct mail and telemarketing solicitations
2792 and, as a result of those professional solicitors, keep 80 to
2793 90 percent of the contributions. Did you hear that

2794 testimony?

2795 Ms. CARROLL. Yes, sir.

2796 Mr. CUMMINGS. I understand that TAPS does not currently
2797 use a for-profit fundraising company to raise its money, but
2798 you did try it at one time. Is that correct?

2799 Ms. CARROLL. Yes.

2800 Mr. CUMMINGS. Why did you first decide to try raising
2801 money through a for-profit direct mail campaign?

2802 Ms. CARROLL. We were approached by the firm, and they
2803 gave a very compelling case for this being a solid way to
2804 raise money. One of our sister organizations that I
2805 mentioned in my testimony, COPS, Concerns of Police
2806 Survivors, does use that. We tried it for a year. We found
2807 the percentage far too high and terminated that agreement.

2808 Currently, we have an in-house development director.
2809 She is the surviving sister of Captain Blake Russell, who was
2810 killed in Iraq, and not only is she now raising money for us
2811 internally, but it is also part of her healing.

2812 Mr. CUMMINGS. She probably has a passion for it.

2813 Ms. CARROLL. She absolutely does. When she is
2814 connecting with our donors and with our families, she is
2815 connecting from the heart.

2816 Mr. CUMMINGS. Now what kind of promises did your
2817 fundraiser make, the telemarketing fundraiser make to you?

2818 Ms. CARROLL. Well, that over time, as they build a house

2819 | file from the direct mail, there would be quite a bit of
2820 | money, revenue coming in. After seeing this in place for a
2821 | period of approximately one year, we determined this was not
2822 | an appropriate way for us to be managing, and the ratio was
2823 | far, far too off, and it did damage our ratio for a period
2824 | which we are very, very disturbed about.

2825 | Mr. CUMMINGS. Well, let me ask you this. How much money
2826 | did you make under the telemarketer? How much money did you
2827 | make?

2828 | Ms. CARROLL. If I could just defer to our CFO here.

2829 | Mr. CUMMINGS. Sure.

2830 | Ms. CARROLL. It is upsetting to say that our income was
2831 | approximately \$50,000 to their total of \$500,000.

2832 | Mr. CUMMINGS. Wait a minute. Let me get this right. I
2833 | know I didn't hear that right.

2834 | Let me get this right. They got \$500,000, and you got
2835 | \$50,000?

2836 | Ms. CARROLL. Yes, sir, that is correct.

2837 | Mr. CUMMINGS. Jiminy Christmas.

2838 | Ms. CARROLL. And we terminated that very quickly, and it
2839 | was a regrettable experience.

2840 | Mr. CUMMINGS. You did something that Ms. Seman just
2841 | talked about, and she said that it was almost impossible to
2842 | terminate these agreements and they had to be long range.
2843 | Did you find that they were requiring long range agreements?

2844 Ms. CARROLL. They did, and we terminated immediately
2845 upon making the board decision.

2846 Mr. CUMMINGS. So provisions in your contract allowed you
2847 terminate?

2848 Ms. CARROLL. Yes.

2849 Mr. CUMMINGS. They did pretty good now in a year. Was
2850 it a year? How many years?

2851 Ms. CARROLL. It was approximately one year.

2852 Mr. CUMMINGS. In one year, they made 450,000.

2853 Ms. Carroll, what methods are you using to raise now? I
2854 think you told me that a minute ago.

2855 Ms. CARROLL. We have one of our most successful
2856 fundraisers is the Marine Corps Marathon. We have a team in
2857 which every runner honors a fallen service member. Many of
2858 those runners are themselves, surviving families. They run.
2859 This year, we raised over \$200,000.

2860 Mr. CUMMINGS. So that is a much better rate.

2861 Ms. CARROLL. Yes. Yes, that is a wonderful rate, and
2862 the really great thing about the program is we are bringing
2863 together the families.

2864 Mr. CUMMINGS. Last but not least, Ms. Seman and Mr.
2865 Friend, I am so glad you had an opportunity to hear that
2866 testimony. Perhaps we can improve on your performance.
2867 Perhaps we can see more money going to the appropriate folks.
2868 You say you have no other option than to use direct mail

2869 and telemarketing, but that is not true, is it?

2870 Ms. SEMAN. I never said I had no other option. I said I
2871 was locked into a contract for right now and that we weren't
2872 going to do that in the future. That is what I said.

2873 Chairman WAXMAN. Mr. Cummings, I am going to have that
2874 as a question that you put out there rather than get the
2875 answer because I think it is the kind of question that we all
2876 should think about.

2877 Mr. Shays.

2878 Mr. SHAYS. Thank you, Mr. Chairman.

2879 Ms. Seman, you are under oath. Mr. Friend, you are
2880 under oath. All of you are under oath.

2881 Ms. Seman, how much do you make? How much does anyone
2882 in your family make from this?

2883 Ms. SEMAN. I make \$85,000 a year; none of my family
2884 members.

2885 Mr. SHAYS. You make \$85,000 a year?

2886 Ms. SEMAN. Yes.

2887 Mr. SHAYS. Mr. Friend, I want to know how much you make
2888 overall from all four of your charities.

2889 Mr. FRIEND. Myself?

2890 Mr. SHAYS. Yes.

2891 Mr. FRIEND. About \$85,000.

2892 Mr. SHAYS. How much does any of your family members
2893 make?

2894 Mr. FRIEND. My wife makes about the same.

2895 Mr. SHAYS. Not about, I want to know what she makes.

2896 Mr. FRIEND. About \$85,000. I think we made a hundred.

2897 Mr. SHAYS. Does anybody else in your family make any

2898 money from this?

2899 Mr. FRIEND. Yes.

2900 Mr. SHAYS. Who else?

2901 Mr. FRIEND. A small amount, my father-in-law works in a

2902 capacity of working in the office in regard to.

2903 Mr. SHAYS. Anybody else in your family?

2904 Mr. FRIEND. No.

2905 Mr. SHAYS. Do any of you get a kickback from the firms

2906 that do it?

2907 Mr. FRIEND. No, no.

2908 Mr. SHAYS. Do you get a kickback from anyone?

2909 Mr. FRIEND. No.

2910 Mr. SHAYS. Do you make money from any other source?

2911 Mr. FRIEND. No.

2912 Mr. SHAYS. Ms. Seman, I don't understand why you just

2913 don't get rid of your foundation.

2914 Ms. SEMAN. We are in the process of doing that right

2915 now.

2916 Mr. SHAYS. Just dissolve it.

2917 Ms. SEMAN. We are in the process.

2918 Mr. SHAYS. Yes, yes.

2919 Mr. Friend, I think it is just bull that you have to
2920 hire these folks to do your calls. I think it is a ripoff to
2921 the public, and I think you are in the business just to make
2922 money. I don't think you are there to help cancer patients,
2923 the police or the veterans.

2924 You tell me how I should believe you are in the business
2925 to help people.

2926 Mr. FRIEND. Unless our numbers can start to prove
2927 otherwise, then I would agree with you, and I think that I
2928 wouldn't stay in the business unless I felt that our numbers
2929 were going to.

2930 Mr. SHAYS. You have been in the business too long to
2931 make that statement. You have been in the business over five
2932 years.

2933 Mr. FRIEND. That is correct.

2934 Mr. SHAYS. Yes, well, it is pretty pathetic.

2935 Mr. Chairman.

2936 Chairman WAXMAN. Thank you very much, Mr. Shays.

2937 We thank all the witnesses for being here today.

2938 We are going to have another hearing in January, and we
2939 are going to work on this issue because it is one I think we
2940 owe to our veterans and all of the people who give to
2941 charities.

2942 Thank you for being here.

2943 The Committee stands adjourned.

2944

[Whereupon, at 1:15 p.m., the committee was adjourned.]