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Veterans The hidden cost of charity

Veterans and dollars

Here is a breakdown of the 1989-90 income and expenses of the Paralyzed Veterans of America Michigan chapter, a nonprofit group based in Garden City with 600 members statewide.

Income	Expenses
Membership dues, \$6,516	Michigan PVA membership benefits, \$16,617
Direct public support, \$6,407	State of Michigan grant, \$127,400
Other, \$4,698	Management and general, \$67,556
PVA's bimonthly newspaper, \$12,700	Spill out research, \$2,000
Half PVA contribution, \$75,479	Fund-raising costs, \$6,560
Total income: \$345,623	Counselors for veterans filing for VA benefits, \$152,716
	Promotion of PVA and public awareness, \$50,308
	Total expenses: \$238,190*

*Total spent on PVA employee salaries, wages and benefits: \$174,293.
*Amount raised through ad sales for PVA newspaper was \$263,291.86. Private publisher took 10 percent.
**For projects in veterans' membership.
Source: Internal Revenue Service filings by PVA.

State grants misused, vets claim

By John T. Wark

Tens of thousands of dollars in state grants intended to help veterans are being misused by officials of the Michigan chapter of the Paralyzed Veterans of America (PVA), some members say.

But John Eberhart, the chapter's executive director, denied that the money is being misused and said he properly accounts for the grants, which have averaged about \$125,000 each of the past three years.

The people complaining were dismissed or disgruntled... and are out for revenge, he said.

The grants are supposed to be used to help veterans file for federal benefits from the Veterans Administration.

But loosely worded state rules governing the grants permit the PVA to spend the money on "necessary

Loosely worded rules: PVA critics complain too much is being spent on administration and not enough on programs to help handicapped.

support and managerial staff" related to the benefits program.

Tom Hill, the PVA's former financial director, claims only half of the grant money goes to help veterans seeking benefits.

The other half, he said, covers administrative costs for the chapter's headquarters in Garden City and pays for such things as out-of-town trips by PVA board members and Eberhart's salary.

State records show that the PVA only uses its grants to pay the salaries of two benefits assistance workers and a secretary. Their combined salaries are about \$60,700 — about half of the yearly grant total.

The state PVA maintains that it doesn't report the money kept by the fund-raiser because that's a part of the fund-raiser's expenses, not the PVA's. But charity experts say that that money should be reported by the PVA.

Eberhart said PVA accounts for all the grant money to state legislators, who appropriated about \$2.8 million last year for the PVA and 10 other veterans groups in Michigan.

One state lawmaker, however, said the grant process troubles him because of the lack of accountability by veterans groups and the way they spend the grants.

"Most of these veterans services organizations are failing to achieve maximum effectiveness in providing services for Michigan veterans," said Sen. Nick Smith, D-Addison, who until recently was chairman of the Senate subcommittee that awarded the money.

Vets: Outside fund-raiser keeps 88% of donations

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Gambotto, who said he resigned as vice president of the Michigan chapter because he was dissatisfied by how little he felt the organization was doing for veterans, called PVA's handling of funds "a rip-off" that's been going on for a long time.

"I think it's a real shame the way we're treating veterans," he said. "There's no accountability."

Charity experts also question the fund-raising deal.

"It's a terrible contract," said Daniel Langan, a spokesman for the National Charities Information Bureau (NCIB), a New York-based consumer watchdog group that sets voluntary standards for charities.

"They (PVA) aren't getting their money's worth by any means. It's money thrown down the drain. Most of the money is leaving the community instead of going to benefit disabled veterans."

The national PVA has 34,000 members, and the state chapter has 600. Many of them use wheelchairs. The group has a number of programs to help the disabled, including lobbying for wheelchair access and aiding spinal-injury research. But its main function is helping veterans get assistance from the Veterans Administration.

The PVA contract with Midwest allows the fund-raiser to keep 88 percent of the money it raises through the sale of advertising placed in the PVA's bimonthly newspaper, Rollin' Times. Midwest solicits the ads and produces, prints and distributes the paper for the Michigan PVA chapter.

Business and individuals contacted by The Detroit News said the fund-raiser's telephone salesmen never mentioned Midwest or that 88 cents of each dollar donated through ads would go to Midwest — not to veterans programs.

"We assumed the dollars, per their pitch, were going to assist disabled veterans," said Jeff Olesinski, senior vice president of marketing and communications for the Detroit Times, one major advertiser.

Olesinski said the Times "would be uncomfortable" to learn that 88 percent of the money given to the paralyzed veterans went to a fund-raising company.

"I look at (the donations) as testimonial institutional advertising," he said. "We would hope the larger portion was going toward the cause and the smaller portion toward their (fund-raising) overhead."

Dr. Ronald Krone, chief of emergency at William Beaumont Hospital, Royal Oak, bought a half-page ad in the November issue of the PVA newspaper. Krone said he was unaware that only 12 percent of the money he gave was used to benefit veterans.

"I'm usually an educated contributor when it comes to charities," Krone said. "But in this case, I didn't ask how much. I ain't giving anymore."

Attempts to interview representatives of Midwest Publishing were unsuccessful. John and Tina Nrieh, whose names appear on the compa-



MIKE WEISS/The Detroit News

ny's contracts with the PVA, declined to comment.

Eberhart, the executive director, said other state PVA chapters have similar arrangements with different fund-raisers.

Richard Hoover, acting executive director for the national PVA office, confirmed that other PVA state chapters "are involved in these things." But he would not say how many of the 23 chapters nationally have similar fund-raising deals. He added that state chapters handle their own fund-raising.

"It's important that we make a distinction between what the national organization does and what the state chapters do," Hoover said, noting that the national PVA office does not use fund-raisers like Midwest.

Hoover said that for a veterans group to receive 12 cents of every dollar a fund-raiser collects is "not an unusual figure."

But Langan of the charities bureau said larger, well-known charities do not enter into such contracts, though the fund-raising method "is growing among smaller charities."

Langan added, "I can't believe an ethical group like the PVA would be doing this."

Eberhart said the deal with Midwest Publishing was approved by the PVA's board of directors in 1984, when the board included several veterans now critical of the deal.

Tom Hill, who was on the board, said he didn't understand all the details of the Midwest contract until later. Hill is a former financial director of the PVA.

AMVETS of Michigan, another veterans group, has a similar deal with Midwest, which raised \$1.4 million in the AMVETS' name in 1988-89. The AMVETS receive 10 cents on each dollar the public donates.

"To be honest, I thought it was higher," said Frank Kuznoski, membership director for AMVETS. "But who am I to judge (if the 10 percent is good)?"

"We don't have the equipment and people to raise the money we get (this way). If it wasn't done for us, we wouldn't be able to do it."

Chuck Modrzinski, a member of the PVA chapter's board of directors, and Ray Hill, a former member, said they were never made aware of exactly how much money Midwest makes on the fund-raising deal.

"We had no idea of the immensity of the profits Midwest was making on this thing because we never got to look at their books," Modrzinski said. "Our questions never got answered fully at board meetings."

"We feel," Hill said, "that we should tell the public exactly where the money is going."

State and federal records reviewed by The News show that between 1988 and 1990, PVA received \$210,464 from the contract with Midwest on its 12 percent share — indicating total donations of about \$1.7 million.

Midwest sends the PVA monthly bank statements showing the total donations in a joint account with the PVA, and writes checks to itself to cover its fund-raising expenses, Eberhart said.

A disclosure form filed by Midwest with the Michigan Attorney General's Office shows that in 1988-89, Midwest raised \$97,749 in the name of paralyzed veterans.

How \$700,000 became \$85,000

In fiscal 1989-90, Midwest raised \$697,749

Midwest Publishing of Southfield sells ads and produces a newspaper for the Michigan chapter of the Paralyzed Veterans of America. Midwest keeps most of the money raised. Here is how the operation works.



1 Midwest's telephone solicitors call potential donors and advertisers for the paper, Rollin' Times. Solicitors read written script saying money goes for programs for veterans. Midwest is never mentioned.

2 Donors told to make checks payable to veterans group and to mail checks to post office box in Roseville. All money is handled by Midwest, which produces, prints and distributes the paper.

3 Veterans group gets monthly bank statement showing how much Midwest has collected.

4 Midwest sends the veterans group 12 percent of the money brought in from the ads and donations, keeping 88 percent for its costs and profit.

However, the veterans group has never reported the expense to the state or the Internal Revenue Service, although most tax-exempt charitable organizations report such expenses.

Eberhart said the state group routinely has not reported the expense because it considered the payment part of the fund-raiser's cost of doing business.

As a result, however, charity experts say the PVA's financial statements may mislead the public.

The financial disclosure form filed by all charities with the IRS, called a Form 990, must be provided to the public by request. The NCIB recommends potential donors ask charities to provide a Form 990 to make certain they spend at least 60 percent of their annual expenses on programs and services.

"It's totally misleading" for the veterans to omit reporting the money paid to the professional fund-raising company, says the NCIB's Langan.

"No matter how you slice it, it's fund-raising. They have a contract to pay 88 percent of the gross revenues from the advertising."

Generally speaking, a tax-exempt organization should report its gross revenues and all fund-raising expenses, agreed Detroit IRS spokesman Sara Wroford.

The intent and spirit of the IRS disclosure law "is to allow people to look to see where the income is coming from and where the expenses are going," she said.

The PVA's 1989-90 IRS financial statement indicates only 2.3 percent of its total expenses went for raising funds. When the figures by Midwest is included as a fund-raising expense, 76 percent of its budget went raising money and only 18 percent to programs for veterans.

Former Paralyzed Veterans of America board members Ray Hill (left) and Tom Hill said they never understood the contract with Midwest or realized how much money the publishing firm would make producing the Rollin' Times.

TIPS FOR THOSE WHO GIVE

Many charitable organizations use professional fund-raisers who keep a percentage of contributions. Here are some guidelines and questions to ask them to make sure most of your charitable donation goes to the cause you want to help.

- Seek information: Learn more about the group seeking a donation before deciding whether to give. Ask for a brochure or other written information explaining what they do.
- Financial report: Will the organization send financial information on itself upon request? Most charities will do so without question. Ask for a copy of the group's annual financial report or its Internal Revenue Service Form 990. The IRS requires charities to provide this upon request.
- Call a member: Is the caller a member of the charitable organization or an employee of a professional fund-raising company? If the latter, ask if the fund-raiser is registered with the Michigan Attorney General's Office? If so, ask for a copy of the annual report the group must file.
- The breakdown: How much of each dollar given to the organization is actually spent on its public programs and services? National charity watchdog groups suggest that at least 50 percent of total income or 60 percent of total expenses should go to programs.
- On your guard: Be suspicious if a caller wants the check made out to him personally or offers to pick up a cash donation in person.
- Tips on giving: Two national groups investigate complaints and provide free brochures with tips on giving and information charities. The Council of Better Business Bureaus, Philanthropic Advisory Services, 4200 Wilson Blvd., Arlington, Va., 22205 and the National Charities Information Bureau, Department 18, 19 Union Square West, New York, N.Y., 10003.