

CHARITABLE TAKING THE ARIZONA DIVISION OF THE AMERICAN CANCER SOCIETY EATS UP 95 PERCENT OF ITS BUDGET WITH SALARIES AND OVERHEAD. CANCER VICTIMS GET THE LEFTOVER CRUMBS.

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By John Dougherty

Jerry Brock slowly leans over and to his right, stretching slightly to reach the candy jar stashed behind his office desk.

Very deliberately, he opens the wrapper to a piece of hard candy, and precisely places the morsel in his mouth. The ritual gives him a moment to contemplate disturbing information.

"It's amazing. I'm shocked," Brock says in the restrained and measured voice of a successful businessman, someone who attained financial security one hour at a time over 30 years, with a "pay as you go" philosophy.

A self-educated man who made a fortune in the automobile-salvage business, Brock decided a few years ago that he wanted to make a significant financial contribution to a worthwhile cause. "I don't know why. But it was something in here," he says, gesturing toward his heart. As fate would have it, a friend asked him to join the East Valley board of directors of the American Cancer Society.

His experience on the board led him to believe the society was a model charity, one that devoted a vast amount of its resources to battling a dreaded disease and to helping those afflicted with it. More important, this good work appeared to be accomplished efficiently, with just 15 percent of donors' funds allocated to management, fund raising and overhead.

Before long, Brock and his wife, Shirley, began considering donating \$100,000 to the society--a contribution that would put them at the pinnacle of philanthropists in the state. At first, their donations were much smaller, but still in the thousands. In thanks, the society gave the Brocks a set of kachinas, which sit on a credenza behind his desk. Finally, in 1994, the Brocks decided to go for broke. They pledged an additional \$91,000 to the Arizona division of the American Cancer Society to finance a cancer telephone hot line for three years. The society awarded the designation "Lifetime Excalibur" to the Brocks. It is the society's highest donor honor.

The magnitude of the Brocks' donation is matched in Arizona only by contributions from syndicated writer Erma Bombeck's Family Partnership and from a foundation created by real estate magnate Harold Grossman. The donation was not something Brock took lightly. Even so, he did no research into how the society's Arizona division actually spends its money, other than reading the division's scanty, one-page annual report.

"I guess you could call it blind faith," Brock says of his trust in the society.

That faith has been rocked by a scathing report on the Arizona division prepared by two economists whom the American Cancer Society has labeled, without providing any proof, tobacco-company propagandists.

But the numbers used by George Mason University's James Bennett and Loyola University's Thomas DiLorenzo have nothing to do with tobacco. They speak for themselves. They come right out of the Arizona division's audited financial statements--statements reviewed by New Times--and paint an astounding picture.

Contrary to its popular image as a bootstrap operation scraping by only with the help of volunteers, the American Cancer Society's Arizona division is more than well-off. It has some \$4.6 million in cash and securities on hand.

It is a large organization, with 75 full-time and part-time employees. It spends nearly 22 times as much on salaries and overhead as it does on delivering direct services to Arizonans.

It is an enterprise that pays its top executive \$119,000 per year, plus \$15,000 more in insurance and retirement benefits.

Even though its mission is to "diminish suffering" from cancer, it is a charity that has seen its total assets increase by 42 percent since 1988, to \$10.9 million.

It is a politically active group, spending \$24,000 of contributors' money to spearhead a tobacco-tax initiative approved by voters last November, and using more donation dollars this year to lobby the Arizona State Legislature.

By any financial measurement, the Arizona division of the American Cancer Society is a wealthy entity. Yet last year, this powerful charity, which pays no taxes, spent a paltry \$47,183 on "specific assistance" for thousands of Arizona cancer patients and their families.

These numbers leave Brock stunned.

"Things may have been different with my gift had I known that," he says solemnly.

Jerry Brock is interested in learning more about the Arizona division's finances, but other current and former cancer society board members are reluctant to delve deeply into the financial numbers.

Bobbi Casano of Tempe has spent ten years working as a cancer society volunteer, and is adamant in her support of the organization, regardless of what the fine print may reveal. A current ACS-Arizona board member, Casano says she saw the 1994 audited financial statement and remembers discussing it generally at a board meeting. She admits, however, that she has not "gone over it with a fine-tooth comb."

Nevertheless, Casano says she's confident that the money is well-spent, and that donors should rest easy. She believes spending on salaries and overhead is at a reasonable level. "I'm very comfortable with the way we are doing our accounting and with what the public is getting for its donations," she says.

Another longtime volunteer, John Waters of Tempe, at first expressed interest in learning more about Bennett and DiLorenzo's report, but later tempered his comments. In the meantime, he had discussed the report with ACS staff members in Phoenix.

"I'm not enough of a research person to pass judgment on what Professor Bennett has done," says Waters, who was named Volunteer of the Year by the American Cancer Society in 1993 in recognition of his outstanding fund-raising efforts.

Casano's and Waters' reluctance to review the society's finances with a critical eye is not surprising; many people are hesitant to discuss problems in a charitable organization they support. Most donors, and at least some board members, operate on the same principle as Brock: blind faith.

And, in fact, there is very little oversight of any other kind when it comes to major health charities such as the American Cancer Society.

State and federal regulators generally take a hands-off approach to regulating health charities. Arizona only requires charities to file a brief disclosure statement and a copy of audited financial statements with the secretary of state.

Bennett believes that health charities like the American Cancer Society receive little scrutiny from donors, volunteers and government agencies because they cast an aura of "doing good." Few want to question a charity--the cancer society, for example--because it may be construed that they are against good works, such as finding treatments or a cure for cancer.

This reluctance to hold charities accountable is what allowed the former national president of the United Way of America, William Aramony, to live a life of royalty for years, Bennett says.

Aramony traveled the world in first-class comfort while providing jobs in the United Way empire for family and friends. All of this was possible, according to a 1992 report, because there simply were no policies outlining the appropriate expenditure of travel funds.

The solution to preventing future United Way-style scandals, Bennett says, is to require all charities to open their books to public inspection.

Charities are exempt from state and federal taxes, and are able to avoid many workplace regulations. They are provided these benefits because the public believes charities are providing service to the less fortunate.

"In return for this subsidy, they [charities] should make the details of all expenditures available to any interested party," Bennett says.

The American Cancer Society's Arizona division refused to open its books for inspection by New Times. The society also declined to provide detailed salary information on its ten highest-paid employees. Division officials also refused to explain other specific spending listed in the charity's financial statements, including \$83,000 labeled "other travel" and a long-standing, fully collateralized \$1.5 million bank loan.

The society did release copies of its audited financial statements for the last three years. Those statements show that 95 cents of every dollar spent by the charity in Arizona last year went to salaries and overhead.

Voluntary health charities, such as the American Cancer Society, are required to file annual financial statements with taxing authorities. Those statements are available for public review. They also must prepare annual reports under a set of guidelines created by a coalition of major charities.

These guidelines, however, allow charities to lump together the cost of providing a service, including salaries and overhead, with the actual value of the product or service delivered. This blending of expenses makes it extremely difficult to determine how, and where, a charity spends donations.

For example, if a charity says in its annual report that it spends \$1 million on public education, it could mean the charity gave \$1 million to a public school system. It could also mean the charity's management spent \$990,000 to deliver \$10,000 in tangible services and products to public education.

There is no way to tell from a charity's annual report.

"There is nothing illegal about reporting it this way," says Bennett. "I'm just saying this is fantasy land. You can't tell if a charity is good, bad or indifferent."

The only way to gain more insight into a charity's finances is to examine its audited financial statement. These statements, which are not widely distributed, have somewhat more detail about how money is spent than annual reports.

Audited financial reports provide a starkly different picture of ACS-Arizona's spending from what is displayed in the group's annual report. It is the annual report that is widely distributed and frequently used in fund-raising efforts.

The American Cancer Society, like other health charities, divides spending into five general categories--public education, community services, professional education, patient services and research.

The Arizona division's 1994 annual report states that it spent \$1.1 million on public education, \$733,000 on patient services, \$389,000 on community services, \$194,000 on professional education and \$3,660 on research.

Nowhere in the annual report, however, does it state that expenditures in these five categories also include salaries, payroll taxes, employee benefits packages and general overhead expenses--in addition to the actual product or service delivered to the public.

In fact, the annual report would lead a casual reader to believe those expenses are all included under a category labeled "management and general," which totaled only \$322,000.

Bennett's accounting exercise reveals a stunningly different ACS-Arizona from the one so benevolently portrayed in its annual report. Rather than the society spending \$733,000 on patient services in 1994, as the annual report states, the actual amount of money going directly to patients was only \$71,000, according to Bennett's methodology. Of this, \$47,000 was spent on "specific assistance to individuals."

The balance of the \$733,000 booked as patient services actually was eaten up by \$443,000 in salaries, taxes and benefits, plus another \$219,000 in overhead.

The story repeats itself in ACS-Arizona's four other major spending categories. While the division tells supporters in its annual report that it spent \$1.1 million on public education in 1994, more than 90 percent of that spending was devoted to salaries and overhead. Only \$70,400 went to direct services, mostly in the form of films and publications.

The division spent \$194,700 on professional education in 1994, with \$107,000 going to salaries and \$69,000 going to overhead. Only \$18,600 was actually directly delivered to Arizonans.

Community services spending totaled \$389,000, but the actual amount directly delivered to the public was \$13,700. Salaries absorbed \$218,000 and overhead \$104,000.

Overall, the division spent \$3.74 million in 1994 in Arizona, with \$3.57 million, or 95.4 percent, going to salaries and overhead. Only \$174,000--just 4.6 percent of all spending--benefited Arizonans directly. Last year was not an anomaly for the Arizona division. In fact, ACS-Arizona has a seven-year trend of spending more money on salaries and overhead and less on direct services.

Since 1988, the Arizona division has increased salaries to its staff by 25 percent while slashing direct services to cancer patients and the general public by 51 percent. During the same period, total contributions from all sources rose by 51 percent--to \$8.6 million in 1994. "This is Robin Hood in reverse," says Bennett.

Bennett's analysis of the ACS-Arizona division focuses only on how the division spends money in the state. ACS-Arizona is just one of 57 American Cancer Society divisions scattered across the country that are required to send back 40 percent of the money raised annually to society headquarters in Atlanta, Georgia.

In addition to the \$3.74 million the division spent in Arizona last year, the division also transferred \$3.6 million of contributions directly to ACS headquarters in Atlanta.

The money sent to Atlanta was combined with funds from the other ACS divisions. Last year, those payments to the national cancer society headquarters totaled \$144.6 million. The annual transfers have helped make the society's headquarters one of the nation's wealthiest charities, with \$500 million in available funds.

The ACS in Atlanta returns some of this money in the form of research grants. Last year, the University of Arizona received six grants from ACS headquarters worth \$1 million. Arizona State University received a \$100,000 grant.

ACS officials criticize Bennett's analysis for not taking into account the money raised and transferred by ACS-Arizona to national headquarters. Bennett says the amount of money sent to Atlanta is irrelevant to how the Arizona division spends its share of contributions locally. He considers the transfer a tax the Arizona division must pay to the national organization in order to be considered an American Cancer Society affiliate.

"My interest is not what the national office is doing with its 40 percent share," Bennett says. What's important, he says, is how the Arizona division controls its money.

"That is how you must judge them, on how they spend the money they have to spend," he says.

For the past 24 years, Matthew Madonna has made a career of working for the American Cancer Society.

After working at several other cancer society divisions, he came to Arizona in 1989 to become executive vice president, the top paid ACS official. Madonna's pay last year to oversee the collection and distribution of about \$8 million in contributions came to \$119,000, plus benefits.

He says he has a small cadre of top assistants, with a "couple of people" making \$50,000 or more, two more being paid in the \$40,000 range and "several" in the \$30s. The vast majority of ACS-Arizona employees is in relatively low-paying positions, he says.

But cancer society officials refused to release a list of the ten highest-paid ACS-Arizona employees.

Under Madonna's watch, the amount of money spent locally on salaries has jumped by 25 percent while money spent on direct services has fallen by 51 percent.

While Madonna contests the magnitude of the decline in direct services, saying the accounting doesn't measure all the work done by society volunteers, he acknowledges there have been reductions.

"We have done a significant amount of cutting back the last few years, as dollars have been tight," Madonna says during an interview inside the Arizona division's spacious, \$1 million headquarters in east Phoenix.

But finances haven't been so tight that staff salaries were reduced. "We still need to hire as high a quality of staff as we can," Madonna explains.

Madonna doesn't contest that salaries and overhead make up the vast majority of the expenses associated with delivering products and services to the community--just as Bennett's analysis shows. Madonna, however, contends that Bennett's analysis is not an accepted way of measuring a charity's performance. It is an analysis, Madonna says, that paints an unfair picture of the charity's operations.

Besides, Madonna says, he has no interest in adopting Bennett's methodology. "I'm not going to reinvent the accounting standards for nonprofits." Madonna says Bennett's opinions are just those of one man--a man many in the American Cancer Society suspect of being a lackey for the tobacco industry.

It is a charge Bennett strongly denies, but one he's grown accustomed to hearing since the release last year of a book he co-authored, *Unhealthy Charities*.

The tobacco connection is frequently tossed about by ACS officials. They provide no compelling evidence for the charge.

Instead, ACS officials, including Madonna, make associations. For example, Madonna labels Bennett an "ultraconservative" who lives and works in Virginia, which Madonna considers to be a "tobacco state."

"Part of his motivation," Madonna says, "is to protect the tobacco industry." Madonna claims the economist and his university receive tobacco-tainted money.

ACS headquarters in Atlanta, meanwhile, points to Bennett's association with a Washington, D.C., think tank called Capital Research Center as evidence that Bennett is being paid by the tobacco industry to discredit the cancer society and other charities that campaign against smoking.

The ACS says Bennett is a board member of Capital Research Center, which receives "substantial" contributions from Philip Morris Companies, Inc.

Capital Research president Terry Scanlon, however, says Bennett has never been a board member of the think tank, although the group frequently publishes his work.

Scanlon confirms that Philip Morris contributed funds to the organization, but says it amounts to less than 1 percent of the group's \$1 million in contributions.

Even though ACS officials continue to suggest a Bennett-tobacco link, the organization has acknowledged in writing that Bennett is not under tobacco's thumb.

"We do not believe that Bennett's opinions or activities are inspired or directly controlled by tobacco companies--but they must certainly be applauding them," Steve D. Dickinson, the American Cancer Society's vice president of public relations, wrote last December 27 to a concerned contributor.

The ACS-Arizona division is always looking for new sources of revenue. The last few years have seen individual contributions from donors decrease, although contributions from all sources have risen because the division has received out-of-state foundation grants.

ACS-Arizona is not alone in feeling a contribution pinch. Many nonprofit organizations have reported a decline in contributions, some as much as 25 percent.

The cancer society didn't have to look far to find a possible pipeline of future revenue. Four years ago, California passed a 25-cent-per-pack cigarette tax that has had a profound impact.

The tax has also raised tens of millions of dollars per year for antismoking campaigns, triggering a titanic struggle for control of the funds.

Although the cancer society has not taken California tax money, other major charities--including the American Heart Association and the American Lung Association--have dipped into the tax pool, Bennett says.

Early last year, the ACS-Arizona division joined forces with the local divisions of the heart and lung associations and the state's major hospitals to form a group called Arizona for a Healthy Future.

Matthew Madonna of the ACS-Arizona division was named chairman of the group, which collected enough signatures to place a 40-cent-per-pack tax on cigarettes on last November's ballot. The initiative--Proposition 200--became a battleground for huge financial interests. Millions of dollars were poured in by a tobacco producer; more millions poured in from hospitals and the three major charities.

ACS-Arizona contributed \$24,000.

Voters approved Proposition 200, and the first dollars of an estimated \$90 million-per-year tax are now rolling into the state's coffers. Proposition 200 requires each dollar raised to be divided in this way:

70 cents go to an account to pay for health-care needs for the poor. It is overseen by the Arizona Health Care Cost Containment System, the state's health plan for the poor.

2 cents go to an account for the Arizona Department of Corrections, which currently receives a portion of the state tobacco tax.

5 cents go to a research fund on tobacco-related diseases. It is overseen by the Arizona Department of Health Services.

23 cents go to a "health-education account" for programs aimed at preventing and reducing smoking. This account also is overseen by ADHS.

A battle already has erupted in the Arizona legislature over the spending formula, with some Republican leaders trying to have all the money placed into the general fund.

ACS-Arizona and other groups who supported the legislation have hired lobbyists to keep the money from being reallocated. The cancer society, along with other charities, may have a shot at contracting with the health department for some of the \$20 million per year designated for the health-education account, says state Representative Susan Gerard, chair of the House Health Committee.

There is no doubt that ACS-Arizona intends to fight to keep the current distribution of tobacco-tax dollars as is.

"We will do whatever we can to make sure the funds created by the law are used where they are supposed to go," Madonna says. Whether that means ACS-Arizona will tap into tobacco-tax funds remains to be seen.

The American Cancer Society has developed a variety of catchy ways to raise funds. There is an annual Jail-A-Thon--in which volunteers stay in a pretend jail until they raise enough "bail" money from the public--and the society puts on several gala balls, including a celebration next month at the Arizona Biltmore. Some of the most unusual fund-raising efforts, however, come from volunteers.

Last summer, Chandler police officer Todd Mittness conceived a grueling method of fund raising. Mittness decided to ride a bicycle nonstop from the Mexican border to Utah, hoping to raise money for the cancer society.

Although Mittness was impressed by ACS-Arizona's ability to provide support for his excursion, he says he is uneasy with the charity's spending practices. "I looked into it, and some of the money went for a lot of administrative work, which I really didn't 100 percent approve," he says. "I was kind of disappointed."

Mittness says next time, he will seriously consider supporting a group that has less overhead and delivers more money "to fight the cause rather than feed the organization."

Mittness' extraordinary effort to raise money for the American Cancer Society fell a little short. He was forced to stop his ride on U.S. 89 northeast of Flagstaff because darkness made it too dangerous to continue.

He did raise some money for the society. He just doesn't know how much. It seems ACS-Arizona commingled donations that came in under Mittness' name with other funds. All the cancer society could tell him was that his nonstop, 400-mile bike ride in the middle of the summer raised several thousand dollars.

Perhaps a few hundred were even used to directly benefit Arizona cancer victims.