

**VERY PUBLIC SCANDALS:  
AN ANALYSIS OF HOW AND WHY NONGOVERNMENTAL  
ORGANIZATIONS GET IN TROUBLE**

**A Working Paper**

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## **VERY PUBLIC SCANDALS: AN ANALYSIS OF HOW AND WHY NONGOVERNMENTAL ORGANIZATIONS GET IN TROUBLE**

In the watchdog role of the press, newspapers have, in recent years, uncovered and publicized a number of scandals@regarding the governance and accountability failures of nongovernmental organizations (NGOs). An accumulating number of cases around the world of alleged and substantiated wrongdoing on the part of these organizations suggests that these are not isolated events in particular countries. The seriousness of the incidents exposed by the media point to the need to establish the common bases for these wrongdoings and identify strategies of preventive action.

This article analyzes, from a cross-national perspective, publicized incidents of alleged wrong-doing on the part of NGOs. A content analysis of media reports of scandals@over the past three years involving voluntary organizations was conducted to identify issues and trends in governance and management problems associated with this sector. The analysis is confined to NGOs that are involved in the financing of medical research or delivery of health, human services and recreational programs for the disadvantaged in order to facilitate comparisons. First, background is provided on some of the precedent-setting cases of NGO improprieties in the U.S. during the 1990s. Then some of the more prominent cases of wrongdoing in the U.S. and globally during the time frame of 1998-2000 are identified and their common elements and unique features explored. The underlying problems that allowed these cases to occur and their implications regarding NGO credibility and public trust are identified and strategic options for enhancing accountability presented.

Clarification about terminology is in order. In the United States, NGOs are referred to as not-for-profit, nonprofit, or voluntary organizations, all generally referencing the same group of agencies. Scholars and researchers internationally refer to this grouping of organizations as the third sector or civil society (Katz, 1999). This sector constitutes a diverse group of formal organizations that are, according to Kramer (1998, p. 6), ~~A~~self-governing and non-profit distributing, have some degree of voluntarism, and are expected to produce a public benefit~~@~~

Given the diversity of this third sector, comparisons are best undertaken within similar groupings. Human service organizations, the vehicle through which most health and human services are provided, are those which assist in the physical, emotional, and sometimes spiritual growth and development of individuals, families, groups, and communities (Gibelman, 1995). The services offered by these NGOs are, typically, "uniquely intimate and personal in nature" (Wellford & Gallagher, 1988, p. 49).

NGOs providing health and human services are of two types: sectarian and non-sectarian. Sectarian agencies are those that have their origins or operate with the financial support of religious groups or are oriented toward providing services primarily to members of a specific religion. Examples from the United States include Catholic Charities USA, Jewish Family Services, Lutheran Social Services, the Methodist Board of Child Care, and their affiliates across the country.

## METHODOLOGY

The role of the media in influencing public attitudes is well documented (see, for example, Neuman, Just, & Crigler, 1992; Chaffee & Frank, 1996; Lens, 2000). The media functions throughout the world as a forum of communication, with the press assuming the role of ~~A~~filter~~@C~~ selecting what is important for us to know and in how much detail. It is a fertile source of

information to track and document stories about NGOs. For purposes of this exploratory study, we limited the search to one large segment of the media C the print media. The subject of analysis was daily, weekly, or monthly newspapers and special nonprofit newsletters, such as the *Chronicle of Philanthropy*, *Board Member*, and the *Nonprofit News*.

Two primary search engines were used to identify and obtain newspaper articles -- Lexis-Nexis, a computer assisted research service that includes a large data base of full-text news publications and ProQuest, a comprehensive data base that includes newspapers, journals, periodicals, and newsletters. Although there was some duplication in using two comprehensive data bases, it was found that they identified a number of different articles or revealed articles that carried slightly different perspectives. Background data on U.S. cases were collected for the period 1990-1997. A more comprehensive search was conducted between January and June 2000 for the time frame of 1998-2000 for both U.S. and international stories about NGO improprieties.

The search was initiated using the key words Acharities and fraud@nd a variety of variations (e.g., nongovernmental organizations and allegations; NGOs and fraud; charities and allegations; third sector and dishonesty, etc.) were then attempted to see if they would yield additional articles. The search yielded hundreds of articles related to NGO wrongdoing, the majority of which were outside the purview of the human services. Theoretical sampling was used, in which similar cases are sought and their themes mined. The two authors independently reviewed the articles and listed themes which compromised descriptive categories about the events reported C nature of the allegation, parties involved, legal status of the case, if any, immediate impact on the NGO, its board, staff, or services, responses from the NGO, if any, and key words associated with the alleged wrongdoing.

The articles were analyzed by the use of qualitative content analysis, which is the method of choice for studying themes and language (Rubin & Babbie, 1997). Content analysis refers to any technique for making inferences by systematically and objectively identifying special characteristics of the message (Berg, 1995). Qualitative content analysis is well suited to examining ideological mind sets, themes, topics, symbols, and similar phenomenon@ (Berg, 1995, p. 176). Further, this method permits patterns and themes, and ultimately a hypothesis, to emerge from the data (Rubin & Babbie, 1997).

Each of the articles located through the search were analyzed in relation to pre-determined categories: the nature of the alleged wrongdoing, the person or persons alleged to have committed the wrongdoing, comments, if any, on the part of the alleged parties, the disposition of the matter, if noted, and adjectives or word descriptors used to describe the alleged events. Dates and country of the incident were easily identifiable. In cases in which it was not possible to confirm that the allegation was made specifically in relation to an NGO, the article was not included in the analysis. Reports of wrongdoing by bogus charities and those perpetrated by con artists were also eliminated from the analysis. Similarly, allegations of fraud, theft, or embezzlement of less than \$100,000 were also excluded.

### Study Limitations

There are several limitations associated with this methodology. One limitation is the inclusion of one media form. Opinion journals, television, and radio were not included. The sheer volume and number of sources of data precluded their use. Another limitation is that the use of the internet as a search vehicle allows access to some, but not all of the world-wide press. The total universe of newspapers throughout the world is unknown and thus there is no claim made to any

representation of the print media.

Since the conduct of a search via the internet involves the use of key words, it is possible that some cases were omitted because they fell under different terminology and were thus not recognized. Further, the use of search engines is inherently limited since not all newspapers can be located on the web.

Another limitation is that the identification of NGO misdeeds concerned only those which involved its internal operations and/or the behavior of the board of directors and/or paid staff. There are a substantial number of documented cases of NGO wrongdoing that concern the misuse of public funds (e.g., funds received from government grants or contracts); these were excluded from the analysis because these cases are of a different nature and the consequences are generally confined to the contract relationship itself (although there are exceptions, such as outright theft). Finally, full-length articles with follow-up concerning subsequent case events were more accessible in regard to newspapers in the United States and Great Britain. This may be a reflection of the reality of differential press coverage, or an artifact of the sampling method.

Finally, the decision to limit the time span of the search to the most recent few years meant that information about the outcome of the allegations reported was not available. As discussed below, such outcomes, particularly when they involve legal proceedings, may take years. However, allegations of improprieties may be as important as the outcome, as they illustrate vulnerabilities and the immediacy of public reactions, as molded by press accounts.

### THE BURGEONING THIRD SECTOR

The third sector has become a more significant economic and social force throughout the world and its growth substantially exceeds the other economic sectors (Philanthropy News Digest,

1998). The burgeoning growth and development of NGOs in the last quarter of the 20<sup>th</sup> century relates, in part, to the world-wide quest to find alternatives to government in the provision of human services, a quest largely borne out of a disillusionment with government's handling of the welfare state (McDonald, 1997; Hall & Reed, 1998; Kramer, 1998; Eisenberg, 2000a; Harris, 2000). Traditionally, proprietary (for-profit) concerns have avoided involvement in human services, in part because there has historically been little profit to be made (Gibelman & Demone, 1998).

Given the universal need for health and human services and the concurrent requirement for different vehicles of service provision, the third sector has become the deliverer of choice. From the outset, then, there were high expectations -- perhaps unrealistically high --of NGOs. Wagner (2000) noted that few institutions are as sacrosanct or vaulted as NGOs. In the United States, the presidential campaign of 2000 has both candidates proclaiming the virtues of NGOs to transform lives and bring about social change (Lenkowsky, 2000). Such rhetoric draws attention to the third sector and escalates its growing role and esteemed status.

NGOs occupy different roles and functions within their respective host countries. Throughout the 1990s, articles about NGO wrongdoings began to appear in the U.S. press. Our review of instances of wrongdoing on the part of NGOs reveals that all have involved money and are opportunistic in nature. The incidents are motivated by self-interest (greed), perceived entitlement, or sexual fulfillment. Most have occurred over a lengthy period of time, are not precipitous, reflect a lack of board oversight, and have long term impacts on the organization.

#### TREND SETTING MISDEEDS

Table 1 includes a summary of some of the cases of alleged or actual NGO wrongdoing that came to public attention in the U.S. through the media during the time period of 1990-1997. (See

also Gelman, Gibelman, Pollack, & Schnall, 1996; Gibelman, Gelman, & Pollack, 1997.) A few of these cases warrant detailed attention because they clearly reflect the characteristics of NGO wrongdoing cited above and have received a disproportionate amount of press coverage. These cases and others listed in Table 1 are also important because they established precedents that spiked the interest of the media in NGOs. Since the time frame of these cases spanned the 1990s, it is possible to include their resolution. In one cases, the accused party took her own life. When the CEO or chief financial officer (CFO) was involved, forced resignations or outright firings were the common outcome. People went to prison; some were required to pay restitution.

**Table 1**  
**Major Non-Profit Scandals In The United States ( Pre 1998)**

<u>Year</u>	<u>Organization</u>	<u>Allegation</u>	<u>Wrongdoer</u>	<u>Outcome</u>
1996	American Parkinson Disease Association	Embezzlement	CEO	Prison Restitution
1996	Evangelical Lutheran Church	Embezzlement	Treasurer	Prison
1996	Episcopal Church (National)	Misappropriation of funds	Treasurer	Prison Restitution
1996	Hellenic American Neighborhood Action Committee (HANAC)	Unauthorized Contracting by parallel entity	Senior Administrator	Fired
1994	Jewish Community Center of Greater Washington	Embezzlement Misuse of funds Satellite business operations	CEO & 3 Top Aides	Prison Restitution
1996	March of Dimes	Conflict of Interest Misappropriation of funds	Board Member	Resigned
1994	National Association for the Advancement of Colored People (NAACP)	Misappropriation of funds	CEO	Removal Restitution

1995	New Era Foundation	Embezzlement	CEO	Prison Restitution
1996	Roman Catholic Church (Brooklyn, NY)	Misappropriation of funds	Bookkeeper	Restitution
1997	Three Rivers Regatta (PA)	Misappropriation of funds	Chairman	Unresolved
1992	United Way of America	Misuse of funds Fraud Tax evasion Satellite business operations	President	Prison Restitution

Sources: Arenson, 1995; Babcock, 1992; Berry, 1994; Duke, 1994; Finder, 1996; Fried, 1996; Glazer, 1994; Greene, 1994, 1995; Greenberg, 1994; Hall, 1996a 1996b; Halla, 1996; Hanley, 1996; Kay, 1994; Locy, 1995; Meier, 1996a, 1996b; Melillo, 1992; Moorar, 1995; Murawski, 1995; Niebuhr, 1996; Richardson, 1996; Sexton, 1996; Simross, 1992; Staff, 1992; Staff, 1995; Staff, 1997; Walsh, 1995; Williams, 1996.

### United Way of America

A ground-setting case involved the United Way of America (UWA), one of the nation's largest and most esteemed fund raising arms for third sector services. The United Way is a network of over 2,000 local organizations that raises over \$3 billion a year for charity (Babcock, 1992). This case is instructive because it shows the longevity of scandals afflicting NGOs and the long-term salience of wrongdoing in the public's mind. In 1992, in response to concerns expressed by local UWA affiliates, the United Way Board of Governors set up an independent investigation of the allegations against the chief executive officer, William Aramony, who had served in his position for 22 years. The resulting report concluded that Mr. Aramony's "haphazard" management style resulted in a breach of trust placed in him by the United Way's Board and the public. Specifically, Aramony was accused of using charitable donations to finance a lavish life style, including support of an expensive condominium, use of a limousine, and trips on the Concorde (Shepard, 1992; Simross, 1992). His salary of \$463,000, including fringe benefits, also fueled the fires of public outrage.

Even before legal action was initiated, UWA affiliates took action; selective affiliates decided to delay paying their voluntary dues to the national organization until the investigation was completed (Babcock, 1992). The public outcry was stronger; charitable contributions to the UWA and its affiliates dropped dramatically -- up to 30% in some locales (Miller, 1993). Cutbacks in charitable giving throughout the third sector were attributed to the UWA scandal (Simross, 1992).

After a two year investigation, Mr. Aramony was indicted by a federal grand jury of conspiring to defraud the United Way, filing false tax returns and falsifying records to hide the diversion of money (Shepard & Miller, 1994; Weiner, 1994). Following a lengthy and well-publicized trial, Mr. Aramony was found guilty of 25 felony charges and was sentenced to seven years in prison (Arenson, 1995). The prosecuting attorney submitted 250 letters to the court from angry donors and United Way leaders urging a tough sentence (Murawski, 1995; Staff, 1995).

The jailing of Mr. Aramony, however, was not the end of the story. Public attention to this scandal continued, in part because of a suit against UWA by Mr. Aramony for \$5 million, alleging that he was owed money under pension plans and an employment contract (Johnston, 2000). This issue was finally resolved in late 1999, when the courts sided with Mr. Aramony. A Washington Post editorial cautioned that the UWA debacle should be a warning to all charitable, civic and other public service organizations to take a hard look at their own oversight...the damage done to good causes by bad oversight can be deadly@ (Staff, 1994, p. A14).

Meanwhile, the appointment of a new President, former Peace Corps director Elaine L. Chao, (at half the salary of Mr. Aramony) was heralded as an opportunity to restore public confidence, as well as the confidence of the UWA local affiliates (Miller, 1992). However, after four years at the helm of the United Way, Ms. Chao resigned her position. Shortly after her resignation was

announced, it came to light that individual members of the board had committed to her, out of their own pockets, a gift of appreciation of \$292,500 for a job well done. Members of the United Way community again found themselves debating the actions of the national Board, with concern that such a large gift could be wrongly perceived and cause donor backlash (Hall, 1996a). In light of constituent outcries, it is not surprising that Ms. Chao elected not to accept the gift (Hall, 1996b). In the words of one commentator, UWA has *A persistent image problem* (Gray, 1995).

### Wrongdoings Continue to Surface

Other scandals also involved major U.S. NGOs operating at the national level, such as the National Association for the Advancement of Colored People (NAACP) and the American Parkinson Disease Association. In 1993, Benjamin F. Chavis, Jr. was appointed executive director of the NAACP, an 89 year old civil rights organization. A year later, he was fired after it was revealed that he used a large sum of NAACP money to settle a sex discrimination suit against himself. National NAACP leaders claimed that Chavis created the organization's \$3.8 million deficit and mismanaged its funds. The Chavis scandal raised serious questions about the organization's programs and underscored the diverse views about how African-Americans can achieve equal opportunity and empowerment in this society. Chavis' inattention to allegations of sex discrimination in hiring and pay practices at the NAACP led to the view of widespread gender bias (Berry, 1994). And in the midst of this chaos, two female NAACP employees filed a class-action lawsuit against their employer, accusing it of perpetuating a pattern of sexual discrimination against female professional employees (Locy, 1995).

With charismatic leadership, Frank L. Williams oversaw the expansion of the American Parkinson Disease Association to 90 chapters nationwide. But over a period of seven years, Mr.

Williams had quietly embezzled contribution checks worth more than one million dollars. He told Federal investigators that he stole because his \$109,000 a year salary was half that earned by the chief executive officers of comparable charities (Richardson, 1996). According to the organization's president, *At first it had a terrible impact...some people blamed us for it and some still do@* (Richardson, 1996, p. B3).

These U.S. cases raised the question about whether these were isolated events that were ripe for media exaggeration or whether there is an emerging pattern. Are such events, and the press coverage attendant to them, a unique feature of the U.S.? Are charitable organizations under greater scrutiny today and thus their long-standing vulnerabilities just now surfacing? Or are there structural or other features of NGOs that warrant further investigation and corrective action?

Wrongdoing has come to be expected in the world of big business, with the end of money making and profit justifying the means. Similarly, government excesses, associated with cumbersome and inefficient bureaucratic structures, are acknowledged as a given. Emerging revelations about NGO wrongdoings, on the other hand, run the risk of public indignation because the sector is held to a higher standard of ethical and legal behavior.

#### FINDINGS: 1998-2000

##### Representative Cases

Tables 2 and 3 provide a summary of the major cases for which there was sufficient information available to discern the facts of the situation and categorize the wrongdoing. Table 2 illustrates cases of wrongdoing world-wide for the period 1998-2000. Table 3 highlights the U.S. cases during the same time period. Although there are a disproportionate number of cases reported from the United States, the themes portrayed in these cases suggest common problem areas.

The content analysis revealed six categories of wrongdoing: personal life style enhancement, parallel enterprises, resource expansion opportunities, theft, mismanagement of resources, and sexual misconduct.

### International Cases

Table 2 includes available details on NGO wrongdoings in many areas of the world: Australia, Ecuador, England, France, Germany, Ireland, Israel, Scotland, and South Africa. Since some of these cases are still under investigation or being adjudicated, the outcomes are not known.

**Table 2**  
**Recent International Scandals In The Non-Profit Arena (1998-2000)**

<i>Year</i>	<i>Country</i>	<i>Organization</i>	<i>Allegation</i>	<i>Wrongdoer</i>	<i>Outcome</i>
2000	Australia	Youth Motor Sport Foundation	Fraud (Raffles)	Members of Board	
2000	Australia	Wesley Mission	False billing	Board	
2000	Australia	Brisbane's Royal	Theft	Member of Board	Prison
1998	Ecuador	Fundacion Perez Pallares	Lost Investments	Financial Advisor	Restitution
1999	England	L-Chaim Society	Misuse of funds	Director	
2000	England	Women's Royal Voluntary Service	Embezzlement/Fraud	Controller	
2000	England	National Lottery Charities Board	Lack of oversight of grant awards	Board	
1999	France	Association for Cancer Research	Embezzlement Forgery Fraud	Founder/ Director	Attempted Suicide
2000	Germany	Bavarian Red Cross	Accepting bribes Fraud Tax evasion	Director & Manager	Prison
1999	Ireland	Irish Society For The Prevention of Cruelty to Children	Skimming donations	CEO	Resignation
2000	Israel	Kupat Holim Health Fund	Sexual harassment	Director	Suicide
1999	Scotland	Society for the Distribution of Hebrew Scriptures	Embezzlement	Accountant	Prison
2000	Scotland	Order of the Eastern Star	Embezzlement	Secretary/Acting Treasurer	
1996-1998	South Africa	Foundation For Peace & Justice	Disappearing donations	Director & Bookkeeper	Prison

Sources: Brophy, 1999; Chisholm, 2000; Daley, 1996; Frew, 1999; Kelleher, 1999; Motro, 2000; Penman & Greenwood, 2000; Schroeder, 1999; Sherman & Ashworth, 2000; Staff, 1998a; Staff, 1998b, 1998c; Staff 1999b; Staff, 1999c; Staff, 1999d; Staff, 1999e; Staff, 2000c, Staff, 2000d; Staff, 2000e; Staff, 2000f;



Association for Cancer Research (ACR). Jacques Crozemarie, the ex-president and leading fund raiser of this French Association, was accused of living the high life on the Rivera through the misuse of charitable contributions. He was fired in 1996 and was charged with embezzlement, forgery, and benefitting from the proceeds of fraud. The extent of these activities, which occurred over a period of 20 years, is believed to have cost the charity hundreds of million French francs. Also indicted were 25 former associates who were involved in setting up a series of holding companies that provided services at inflated cost to the ACR. Crozemarie led the NGO for more than 30 years. The French National Audit Office that oversees major charities found that less than 30% of the funds collected were actually spent on research. Annual donations to the fund dropped from \$135 million French francs to 43 million after the fraud was exposed. Crozemarie slashed his wrists in a suicide attempt in February, 1999, after the authorities seized his assets. He faces up to five years in jail (Staff, 1999a; Webster, 1999).

Foundation for Peace and Justice. In South Africa, Allan Boesak was charged with 9 counts of fraud and 21 counts of theft in the disappearance of more than \$500,000 of donated money earmarked for the Children's Trust (Daley, 1996; Reuters, 1998b; Staff, 1998; Staff, 1999b). Charges against Mr. Boesak originally surfaced in 1993. Although he fought the charges, he was convicted in 1999 of three counts of theft and one count of fraud and sentenced to six years in prison. Foundation donors included Paul Simon, the Coca-Cola Foundation, and a number of Scandinavian aid agencies. Mr. Boesak's bookkeeper at the Foundation was convicted in 1997 and sentenced to six years in prison after pleading guilty to embezzlement (Daley, 1996; Reuters, 1998b; Staff, 1999b).

The Money Motive. Greed is a prime motivator behind many of these cases. Two former officials of the Bavarian Red Cross were jailed for taking bribes (3 million marks/\$1.5m) from three pharmaceutical companies in return for paying inflated prices for products that were utilized as part of their blood collection activities (Staff, 2000e). A member of the fund raising board of Australia's Brisbane Royal Women's Hospital, was charged with three counts of stealing funds targeted for medical research (Staff, 2000b). The former head of the Ireland Society for the Prevention of Cruelty to Children was arrested following allegations of discrepancies in fund raising commissions (Kelleher, 1999).

#### Recent U.S. Cases

The U.S. cases are notable for the amount of dollars involved, the length of time over which wrongdoing occurred, and the length of the legal processes that ensued. Three examples of these complex cases follow; others are described in Table 3.

**Table 3**  
**Recent Non-Profit Scandals In The United States (1998-2000)**

<b><i>Year</i></b>	<b><i>Organization</i></b>	<b><i>Allegation</i></b>	<b><i>Wrongdoer</i></b>	<b><i>Outcome</i></b>
1999	Allegheny Health Education & Research Foundations (PA)	Theft Conspiracy	CEO CFO Board Members	
2000	American Cancer Society (OH)	Theft	CFO	
1999	Baptist Foundation of Arizona	Lost Investments Fraud	Officers	Reorganization
1998-2000	Bishop Estate (Hawaii)	Mismanagement Conflict of interest	Trustees	Removal Restitution
1999	Federation of Puerto Rican Organizations (NY)	Embezzlement Money laundering	Executive Director & Controller	
2000	Freeport Day Care Center (NY)	Misappropriation of funds	Director	
1998	Goodwill Industries (CA)	Systematic looting of funds	Director & Six Confederates	Suicide Prison
1999	Head Start (NY)	Embezzlement	Director	
1999	National Baptist Convention	Grand theft Racketeering	President	Prison Restitution
2000	Operation Smile	Misappropriation of funds Flawed record keeping	Founder/Chair	Change in Board
2000	Toys for Tots	Theft	Founder/CEO	Prison & Fines

Sources: Abelson, 2000; Billitter, 1998; Bragg, 1999; Fried, 1999; Greene, 1998, 1999a, 1999b, 2000; Lipman, 2000; Pear, 1999; Smith, 1999; Staff, 1999a; Staff, 2000a; Staff, 2000b; Weiser, 1999.

Bishop Estate. The trustees of the Bernice Pauahi Bishop Estate, a charitable fund established in 1884 to provide for the education of Hawaiian children, were accused by Hawaii's attorney general

of routinely mingling their personal interests with those of the estate. Among the allegations by the attorney general were: that trustees covertly diverted \$350 million from the principal purpose of the estate; that they awarded lucrative contracts to their friends and relatives; used estate employees for their own benefit; accepted excessive compensation for their services; spent estate funds to lobby against passage of state and federal legislation aimed at curbing the level of trustee compensation; mismanaged the estate; received kickbacks from real estate transactions, and failed to invest prudently. Four of the trustees were removed by Probate Judge Kevin Chang in May, 1999. The estate paid the Internal Revenue Service \$9 million to retain its tax-exempt charitable status in December, 1999. Efforts are being made to have the ousted trustees repay more than \$5 million to the estate in legal fees associated with fending off the charges. Big dollars can be a big incentive for wrong doing. Charitable trusts that fail to rotate membership on the board of trustees may create a special status or sense of entitlement (Greene, 1998b, 1999a, 1999b, 2000).

Goodwill Industries. Goodwill Industries of Santa Clara County, California is one of 187 autonomous local Goodwill affiliates in the U.S. and Canada. At least seven individuals who were related to the alleged mastermind, Linda Faye Marcil, systematically stole more than \$15 million by selling donated clothing and pocketing the proceeds. The systematic looting of resources took place over a period of almost 25 years. Money was skimmed from cash registers and donated clothing was sold by the barrelful to private dealers. While the CEO of the affiliate, Hugh D. Barrett, was not a target of the investigation, another official, Carol Marr, committed suicide. More than \$400,000 in cash was found in the home and office of Linda Marcil and more than \$1 million in accounts held by Carol Marr. The Vice-President of Retail Operations, Mr. Sasson, had been instructed by the former CEO never to set foot in the stores or talk to the managers (Billitteri, 1998). This case demonstrates what can happen when a charity has few management and financial controls in place and fails to

institute any oversight measures over the long-term.

Federation of Puerto Rican Organizations. This New York NGO operates small group homes for the developmentally disabled and troubled juveniles. The executive director, Victor Medina, and controller, Charles Gibson, were charged with embezzlement, money laundering, and conspiracy in the theft of more than \$2 million from the organization (Fried, 1999). The sums involved were substantial, given the size and resources of the organization.

## DISCUSSION

The analysis of cases of allegations and, for some, findings of wrongdoing show a broad range of affected NGOs C from small community agencies to large, national umbrella organizations. The sums involved in cases of theft were significant and many of these wrongdoings went on for years without detection. The cases also reveal that the underlying issues had to do with the lack of appropriate oversight and the failure to institute or maintain accountability mechanisms. The situations were thus ripe for exploitation.

These cases point to a problem of governance. Symptoms of board failures suggested in the cases examined include failure to supervise operations, improper delegation of authority, neglect of assets, failure to ask the ~~A~~right questions@lack of turnover of board members, lack of oversight of the CEO, failure to institute internal controls, absence of ~~A~~checks and balances@in procedures and practices; and isolation of board members from staff, programs and clients.

NGOs can be distinguished from other organizational types in regard to the locus of responsibility. The board is the policymaking body and its members assume *fiduciary* responsibility -- a duty to act for the good of others. The standards to which directors are held varies from country to country and even within different states and provinces. However, the directors of NGOs are required to exercise reasonable and ordinary care in the performance of their duties, exhibiting

honesty and good faith. Board members share collective responsibility for the fiscal and programmatic aspects of the organization's performance. Boards are charged with overseeing and scrutinizing all aspects of the operations of the organization. According to Gelman (1983, p. 88), "a board which fails in its function of both determining policy and evaluating achievement in support of those policies is negligent in performing its mandated functions". Should that occur, board members risk not only personal monetary liability, but their reputations as competent and responsible community leaders.

### Change at the Top

The CEO is an employee of the organization and serves at the pleasure of the board. When the executive is elevated to coequal board membership, has more than advisory power in nominating board members, develops personal relationships with those who must evaluate his/her performance, is permitted to operate independent of board oversight, or can commit agency resources without review, the duty of vigilance has been breached. Commenting on European NGOs, Gregoire (2000) noted that a significant number of them are staff-led, with generally deficient oversight on the part of the board. This scenario suggests that the relationship between the CEO and the board, for developing NGOs, mirrors the level of dependency that has already been found to be associated with disastrous outcomes.

Although the board can draw on the executive's expertise and knowledge, it cannot allow its legal responsibility to be diluted or co-opted by overdependence. A collegial working relationship is essential between the board and the executive, but the executive, no matter how seasoned, prominent, or well liked, remains an employee of the organization. Michael Fox, board chair of the United Way of Santa Clara County, found himself in a precarious situation when the UWSCC found itself short \$11 million in donations. In his words: *Al* learned to feel a greater sense of

responsibility toward being a board member, to not look at this as a perfunctory type of thing, and to not let the executive director run the board@(Staff, 1999c, p. 7).

The majority of these cases involved the CEO or CFO. Examples include the United Way of America, the Association for Cancer Research, the Foundation for Peace and Justice, Toys for Tots, Irish Society for the Prevention of Cruelty to Children, and the National Baptist Convention. In these cases, the traditional notion of partnership, between CEO and board, if it actually exists, has been displaced by one of power/dependency (Kramer, 1985).

In the face of allegations -- even before fact-finding has determined guilt or innocence, one immediate response has been to fire and hire. The firing, of course, is of the CEO, the hiring is of a replacement who can command widespread support and confidence and get the organizations back "on the right track". Renewed credibility in the organization, perhaps, is expected to come from a combination of "fresh" executive leadership and more vigilant oversight on the part of the board. In many respects, assignment of responsibility for the wrongdoing to the CEO or CFO leads to a more manageable solution for the organization, and some degree of damage control may result. A study of the effects of the revelation of corporate fraud revealed that such scandals create incentives to change managers in the attempt to improve the organization's performance, recover reputation, and limit the organization's exposure to liabilities that arise from the fraud (Agrawal, Jaffe, & Karpoff, 1999).

Such moves, however, also have consequences. It has been documented that forced CEO firings that were associated with a failure of the board to monitor resulted in a high level of board turnover. Thus, it is not only the CEO whose job is lost; the board is also accountable for its failure to perform its monitoring and advising duties and its members may be forced to resign or voluntarily decide to do so (Ward, Bishop, & Sonnenfeld, 1999).

### The Watch Dog Role of the Press

The tendency of the media to portray causal stories that attribute fault or assign responsibility to a particular party, even long before the fact of an official investigation, has been documented in regard to analyses of media reports (Stone, 1989; Loeske, 1995). Thus, media accounts not only draw attention to NGO wrongdoings, but also affect public attitudes about them. These stories typically contain villains, such as the CEO, CFO, a trusted employee, or the board, and may include victims, as well, such as the communities or populations intended to be the beneficiaries of the NGOs services.

The use of language influences how the public perceives and responds to stories. Following the United Way of America scandal in the early 1990s, in which the president was accused and eventually found guilty of fraud, contributions fell dramatically, not only to the national organization, but to all of its affiliates (Miller, 1995; Staff, 1995). Negative public opinion resulted not only from the facts of the case, but also the words and images used by the media to describe these facts. The fall off in donations occurred well before the guilty verdict.

The public impact of these stories is colored by how they are presented. Table 4 illustrates the language used to describe the allegations of wrongdoing. Rather than a clear statement of fact, such as *Alleged*@the words are more expressive and emotionally laden. Examples of the latter include *Abetrayal*@*Aculprits*@*Afraudsters*@ and even *Ainner and felon*@ Such words have immediate impact on newspaper readers and influence both their perceptions of and conclusions about the events described.

**Table 4**  
**The Vocabulary of the Press:**  
**Descriptors of NGO Alleged Wrongdoings**

<b>International</b>	<b>United States</b>
Crooked	Bilking
Cheat	Looting
Fleeced	Stealing
Scam	Fraud
Theft	Cunning/elaborate swindle
Corrupt	Culprits
Charity shocker	Preyed on public trust
Fiasco	Venal behavior

Betrayal	Breach/loss of trust
Enormous alleged fraud	Racketeer
Defrauding of public money	Sinner
Swindlers	Felon
Fraudsters	Common thief
Deception	Sad commentary on the religious community

Idioms set the moral stage from which readers make judgments (Ibarra & Kitsuse, 1993).

Descriptors used to describe NGO allegations raise emotions that can pierce even the most apathetic reader (Lens, 2000). Similarly, what is not reported may be as or more important than what is reported. There have been instances, for example, in which the allegations against NGOs have not been substantiated, but a newspaper story to this affect may be placed on page 15 instead of page one or, worse, there may be no follow-up story at all, in which case the allegation stands in people's minds. Further, NGOs are left in the position of trying to exert media control@on their tarnished reputations, after-the-fact of the headlines. Unless the NGO has contacts in the press who are willing to listen and present the other side and board or staff are skilled in media relations, it is not likely that any rebuttal will appear. Because alleged wrongdoings typically involve litigation, NGO representatives may offer the standard *No comment@*when the press seeks them out, often accentuating the perception that there is, indeed, something to hide. The court of public opinion is thus swayed by a one-sided view of events.

## CONSEQUENCES AND LONG-TERM IMPLICATIONS

The excesses and misdeeds associated with private enterprise and government have long been fertile territory for the press. But in the third sector, public trust is a key component. When this public trust is compromised, the costs to status, reputation, and funding can be significant.

A review of cases of NGO wrongdoing in the United States over the last decade suggests that allegations are not quickly resolved. As noted earlier, the case of the United Way of America took eight years to reach conclusion. Following Mr. Aramony's resignation, United Ways across the country experienced a 4.1 percent decrease in fund raising (Murawski, 1995). Although there was a gradual recovery in the level of contributions, when adjusted for inflation, total contributions remained substantially below those in 1991 for several years (Staff, 1995). The investigation and trial of Allan Boesak of the Foundation for Peace and Justice has taken seven years. The drop in calls for Assistance to Irish Society for the Prevention of Cruelty to Children following the allegation of Adonation skimming@has been significant.

The aftermath goes beyond the bottom line in contributions. NGOs raise money on the basis of donor trust, a trust that is shaken to the core by the revelations of impropriety. There are long-range implications for any NGO that finds itself the subject of allegations of wrongdoing, even if eventually exonerated. Citizen memories may be long, particularly when trust has been abrogated. For the NGO, long-term implications include difficulties raising money, loss of board members who want to dissociate and save their individual good name, and calls for greater accountability by citizens and government.

### Consequences

In the United States, Great Britain, Canada, and Australia, among other nations, there has been an increasing call for and implementation of heightened accountability procedures for NGOs (McDonald, 1997; Greene, 1998a; Johnson, Jenkinson, Kendall, Bradshaw, & Blackmore, 1998;

Richardson & Gutch, 1998; Schoenberger, 1998; Dickey, 1999). It is perhaps not inconsequential that the call for greater accountability C to funding sources, donors, and the general public C has come on the heels of revelations of NGO wrongdoing. The literature suggests that oversight, quality assurance, and procedural safeguards are as much a function of external demands as a desire to institute internal controls. For example, in the U.S., England, Australia, and Canada, changes in the way NGOs conduct their business have been attributed to their growing partnerships with government to deliver publicly funded services under contract (McDonald, 1997; Greene, 1998; Richardson & Gutch, 1998; Harris, 2000). In contract relationships, governments can and do exercise the prerogative of demanding minimum standards of management and oversight.

The U.S. has already experienced the consequences that can accrue from NGO scandals in terms of loss of contributions, loss of status, and organizational turmoil. For countries in which the third sector is at an earlier stage of development, the notion of NGO accountability to the public is not yet entrenched. The majority of NGOs do not as yet evidence a commitment to the concept of accountability and, in general, their boards are not meeting the basic roles and responsibilities essential for effective governance (Gregoire, 2000). This state of affairs, to the extent that it is substantiated and perpetuated, does not bode well for the future.

Assuring the integrity of NGOs is everyone's concern C governments wishing to devolve some of their functions to charitable organizations; foundation or individual funders providing the support to plan and develop programs that are new, experimental, and perhaps outside of governments=purview; and public citizens desiring that charities do what they are supposed to do. There is no one formula to meet accountability demands. Much depends on societal context; what may work in the United States may be inappropriate in Canada and in nations in which the third sector is in its infancy, a different kind of oversight may be required. Even with more vigilant

internal controls, NGOs are unlikely, themselves, to institutionalize adequate public accountability. Some mixture of watchdog agencies, government oversight, and internal NGO procedures is probably the most feasible route to increase accountability and avoid financial scandals and questionable business and ethical practices.

### TOWARD ENHANCED CREDIBILITY

The cases described herein have cast suspicion and disparagement upon the third sector. This may result, depending on the available remedies in a given country, in tighter government regulations, donor skepticism, and greater demands upon and expectations of governing boards. Such consequences suggest a two-fold agenda: greater safeguards against potential wrongdoings and greater sensitivity to the influence of the press in molding public opinion that may reverberate through the nonprofit sector. Attention to the causes and consequences is particularly important given the worldwide growth in NGO numbers and roles, the escalating demand for NGO services as an alternative to public provision, the intense competition for funds that drive these services, and the growing acknowledgment of the role of voluntary leadership in the success of nonprofit organizations (Axelrod, 1994).

Similarly, waste and sometimes fraud have been common themes associated with government. The growth of NGOs as a sector within the economy has, understandably, led to its share of negative press. The *watchdog@propensities* of the press in regard to NGOs are not necessarily consistent from country to country, but rather reflect culture and precedents. NGOs wishing to learn from these very public case illustrations should concentrate on several areas of concern:

#### Clarifying Board Responsibilities

Drucker (1990) maintains that nonprofits share in common the fact that many, if not most,

suffer from malfunctions in their governance structure. Among the lessons Drucker offers is that board members need to take their job seriously and work hard at it. Too often, Board members view their duties as merely perfunctory. Attendance at meetings may be inconsistent; lack of preparation for meetings may be even more common. Meetings can, in fact, turn into social events, with only scant attention to policy issues and balance sheets (Staff, 1995).

It cannot be assumed that nonprofit boards understand their roles or are adequately prepared to assume and carry them out. When fraud occurs, it means there has been a systemic breakdown in the governance structure. Despite the proliferation of prescriptive literature on volunteer leadership recruitment, training, and retention, the fact remains that many boards are unwilling to invest in their own development. Good intentions and high ideals however, are insufficient (Eisenberg, 1993).

### Internal Controls

Establishing and maintaining internal controls to eliminate the possibility of fraud or deception is costly. It means, for example, a system of checks and balances that involve highly trained and competent staff C an obvious expense to the NGO. Even with an investment in greater oversight, such as more vigilant audits, it is incumbent upon nonprofit organizations to establish and maintain internal systems of accountability, a process that is the responsibility of the board of directors. Proper controls also suggest the need for periodic board turnover and recruiting ~~outsider~~ board members who have no history and no vested interest in the organization.

### Board Development

No assumptions should be made about the innate ability of even the most esteemed board members to understand and carry out their role. As Stephens (1995) commented:

For some heretofore unexplained reason, many seasoned corporate executives, when they

come to positions on non-profit boards, feel compelled to leave their management, planning and fiscal training at the front door. The tendency is to "make allowances" where nonprofits are concerned, to give them "the benefit of the doubt". That attitude always breeds trouble (p. 37).

The failure to institute board development programs on a continuing basis often relates to the unwillingness of a board to invest scarce agency resources on itself. Instead, priority is afforded to using available dollars for organizational programs and services. This looks good to contributors and keeps administrative and governance costs down. However, systematic and ongoing board training is essential to knowledgeable governance. Elements of an effective board development program include orienting new and continuing board members on an annual basis; providing continuing education in policy making; and, promoting continuous opportunities for the board to assess its own performance and that of the organization (Gelman, 1988; Axelrod, 1994).

### Staffing Deficits

The need for new, trained, and committed board members is matched by a need for better staff. A study conducted of Boston, Massachusetts=3,700 NGOs revealed a lack of management training for the staff charged with day-to-day operational responsibilities (Schoenberger, 2000). Eisenberg (2000b) notes that there has been an exodus of visionary and talented managers, in part because of the increasing time demanded of them for fund-raising. Passion and ideals have also been sacrificed to the day-to-day lure of the search for funds. Boards of directors, however, have not adequately addressed staff leadership needs. Skill and experiential deficits on the part of staff suggest the need for greater monitoring of the chief executive officer.

## CONCLUSION

It is a given that the majority of NGOs carry out their mission. The idiom: *A few rotten apples can spoil the barrel*@ however, seems applicable. The public image of the third sector has been tarnished by these revelations. The press is neither benign nor neutral; its messages are a powerful force in influencing public opinion (Edelman 1988; Zaller, 1992). The third sector can ill afford the consequences of public scandal. Public skepticism will continue to grow, affecting charitable giving and fund raising capability. Governments will take action to tighten regulations and independent watchdog agencies such as the National Charities Information Bureau in the United States or the Charity Commission in Great Britain, may well become more vigilant in their oversight. Eisenberg (2000b, p. 45) argues that the economic and social status achieved by nonprofits have resulted in a self-righteous attitude: *A..because they provide good works, they need not be accountable to anybody -- including the donors who support their work*@ Although some may argue with Eisenberg's conclusion that government must be the higher authority to whom nonprofits are accountable, his reasoning for the need for oversight cannot be faulted: *AThe public has a right to know about charitable behavior and to demand a high degree of accountability* (Eisenberg, 2000b, p. 47).

Part of the problem, of course, is that the vaulted status of NGOs makes them more susceptible than other types of organizations to public disillusionment. Salamon (1995, p. 15) has commented on the *Amyth of the pure virtue*@within the nonprofit sector and *Aa certain romanticism* about its inherent purity, about its distinctive virtues@ Similarly, in Great Britain, the third sector operates within cultural assumptions of *Agoodness, good works, altruism, high standards of moral probity*@(Leat, 1994, p. 22). With such high expectations, the plunge from public favor can be severe. Unless the underlying conditions which made these wrongdoings possible are addressed, fresh scandals will fill our daily newspapers and public trust in NGOs will erode.

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