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A Huge Charity Fraud Settlement - Or Is It?

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A scheme described – in a model of understatement – as a “pernicious charity fraud” has finally been stopped.

On March 30, 2016, the FTC announced a settlement in the “most ambitious and largest multi-state prosecution of a nonprofit,” the notorious Cancer Fund of America scam headed by James Reynolds, Sr. and various family members.

But it’s taken years and a massive coordinated effort by federal and state regulators, and the result is “anticlimactic,” considering the grand, deliberate scale of this deception.

Background: The Scam

A few years ago, the *Tampa Bay Times* and the Center for Investigative Reporting called the Cancer Fund of America the second on its list of “ America’s Worst Charities” All you’ll ever need to know about it is in the 148-page complaint filed on May 18, 2015, by the Federal Trade Commission, in conjunction with the Attorneys General of all 50 states and the District of Columbia.

The “Summary of The Case” provides an excellent introduction:

> *1. Defendants, four sham charities and the individuals who run them, have engaged in a massive, nationwide fraud, telling generous Americans that their contributions will help people suffering from cancer, but instead, spending the overwhelming majority of donated funds supporting the Individual Defendants, their families and friends, and their fundraisers. Collectively, between 2008 and 2012, Defendants raised more than $187 million from donors in the United States. This case is about those sham charities, the individuals who ran them, and the false and deceptive claims they made while raising these enormous sums from an unsuspecting public.*

Paragraph 2 explains that —

> *[i]n telemarketing calls, direct mail solicitations, websites, regulatory filings, financial documents, and Combined Federal Campaign materials, Defendants have portrayed themselves as legitimate charities with substantial nationwide programs whose primary purposes were to provide direct support to cancer patients, children with cancer, and breast cancer patients in the United States. They also have described specific programs that donors' contributions supposedly would support, including, e.g., stating that donations would be used to provide pain medication to children suffering from cancer, transport cancer patients to chemotherapy appointments, or pay for hospice care for cancer patients. These were lies. Not one of the Defendants has operated a program that provides cancer patients with pain medication to alleviate their suffering, transports cancer patients to chemotherapy appointments, or pays for hospice care. Moreover, the vast majority of donors' contributions have not directly assisted cancer patients in the United States or otherwise benefitted any charitable purpose. Rather, donations have enriched a small group of individuals related by familial and financial interests and the for-profit fundraisers they hired. This diversion of charitable funds has deceived donors and wasted millions of dollars that could have been spent as donors intended, to help Americans suffering from cancer.*

Paragraph 3 describes how these Defendants hid "their high fundraising and administrative costs from donors by using" a certain nefarious "accounting scheme."
They were sued "for deceptive conduct under Section 5 of the Federal Trade Commission Act ("FTC Act"), 15 U.S.C. § 45(a), and the Telemarketing Sales Rule ("TSR"), 16 C.F.R. Part 310, as well as state statutes regarding charitable solicitations and prohibiting deceptive and unfair trade practices."

Result: The Settlement
"The settlement is meant only to ensure that the Cancer Fund of America (CFA)" and a related entity, "be permanently dissolved." Their leader, James F. Reynolds, Sr. is "banned for life from managing charitable assets or being part of a charity's board or being a trustee." He is also required to "surrender an unspecified amount of his personal assets."
What little money is left "will first go to repay states' litigation fees and after

that to legitimate charities selected by the states."

Conclusion

That many questions remain is an understatement. How many other Cancer Funds of America are out there? "Health charities, or rather disease charities have become a big business" and there are likely "more out there delivering only tiny proportions of their charitable take as legitimate service." And what about so-called veterans charities – now in the news as well?

How did all of this get by the IRS for so long? Why did the FTC, along with the state attorneys general, take the lead but get such a paltry result?

And what about other "nonprofits out there that know other charities that operate much like those of the Reynolds family." While "[n]onprofits don't like to call for government oversight and investigations," the damage caused by fraudsters like this "…is not avoided by nonprofit leaders' adopting ostrich strategies."