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Nonprofit Ethical Case Study

Wendy Lee and Geoffrey Johnson

NPA 601: Nonprofit Ethical Leadership

Prof. Marco Tavanti, Ph.D.

Fall / 2017

Reynolds' fraudulent cancer charities

Summary

In May 2015, James T. Reynolds was charged by the Federal Trade Commission with a civil suit involving multiple states. The FTC accused Reynolds of deceiving donors and misusing over \$187 million of donor funds. Reynolds started out with a single nonprofit, the Cancer Fund of America (CFA), but soon expanded to include the Cancer Support Services (CSS), Children's Cancer Fund of America (CCFOA), and the Breast Cancer Society (BCS). According to their 990s, the four agencies spent a large portion of their donations on fundraising, salaries, bonuses, and lavish expenses. The organizations were found to have spent less than 3% of their revenue on programs related to their stated missions. Additionally, Reynolds' family and friends served as staff and board members for his various charities. This case illustrates the misuse of the nonprofit corporate form, lack of ethical leadership, poor organizational governance practices and policies, as well as the failure of proper regulatory oversight.

Applications

This case is relevant to the following subjects/areas discussed in the course:

- Leadership Shadows (Casting)
- Moral Imagination
- Ethical Decision Making

- Misusing 501(c)(3) status and Nonprofit corporate form

Outcomes

There are many valuable lessons that emerge from this case analysis, including the following:

- Moral/Ethical failures and the role of board of directors & executive leadership
- Importance of leadership and understanding ethical decision making processes
- Moral Imagination
- Role of the Federal Trade Commission (FTC) in protecting American consumers
- Role of state Attorney Generals/Internal Revenue Service (IRS) in providing cross-border regulatory oversight
- Charitable accountability and good governance principles
- The level of trustworthiness in nonprofits and the importance of watchdog websites such as charity watch, charity navigator, etc.
- Legal limitations pertaining to enforcement and recouping donor money
Impact on victims

Videos

CNBC - [“While cancer patients suffered, these charity executives were stuffing their bank accounts”](#)

CNN - [“Cancer charities ripping of donors”](#)

CNN - [Sham Charity Investigation](#)

Cancer Fund of America - [Marketing Video](#)

Description

Background

James T. Reynolds created the Cancer Fund of America in 1987 to meet the needs of cancer patients and their families. According to a promotional video, Reynolds felt that there was a growing number of cancer research organizations, but not charities, to provide financial support and goods to comfort cancer patients and their families. However, while the organization’s stated mission sounded good, the individuals working behind the scenes were not really attempting to achieve this mission.

In May of 2015, Reynolds and other members of his family faced a civil suit brought by the Federal Trade Commission and the Attorneys General of all fifty states. These charges may not have been much of a surprise given Reynolds’ previous track record. Prior to creating his own organization, Reynolds was employed by the Knox County, Tennessee Chapter of the American Cancer Society. He was accused of several unethical actions and was given the option to resign or be fired. Upon his resignation Reynolds founded his own charity, the Cancer Fund of

America, whose name bore similarities to the reputable organization he had just been fired from. Reynolds then spent the next two decades realizing an elaborate scheme that would benefit himself and his family, while cheating thousands of consumers into believing that they were supporting a cancer cause.

Situation

It took the FTC 5 years to investigate Reynolds. In the FTC complaint, the Reynolds charities claimed to have raised over \$187 million from fundraising, yet they only spent around 3% on services and programs for cancer patients. The unethical business of Reynolds' charities began with the way his organizations fundraised. In the nonprofit industry, it is a fairly common practice for organizations to utilize third-party telemarketers. However, the telemarketers for Reynolds' charities made false claims that the entire donation amount would go towards support services, including hospice care and pain medication, for cancer patients. Donors were deliberately misled through a campaign of "telemarketing calls, direct mail, websites, and materials distributed by the Combined Federal Campaign". (FTC)

Additionally, Reynolds and his family falsified information on their financial reports to hide their behavior. Revenue was reported as "gifts in kind" (cite FTC), thus giving the public the illusion that the organization had been responsibly distributing these "gifts" for their mission. State charity regulators also noticed the deception and subsequently charged the four agencies for filing false and misleading financial statements.

Not only did Reynolds self-deal through the CFA, he also enlisted his family to participate in this fraudulent activity through the three other organizations: Cancer Support Services (CSS), Children's Cancer Fund of America (CCFOA), and Breast Cancer Society (BCS). The complaint names all four nonprofits that Reynolds was associated with, as well as Kyle Effler, CFA, chief financial officer, and former president, Rose Perkins, Children's Cancer Fund of America Inc. (CCFOA) president and executive director, and James Reynolds II, The Breast Cancer Society Inc. (BCS) executive director and former president.

Once regulators had charged Reynolds and his cohorts in the civil suit, the question quickly became what had taken regulators so long to notice the fraud. All of the charities associated with the fraudulent activities reported their required 990 form to the IRS, which clearly illustrate the excessive salaries and fundraising fees as expenses. A cursory glance at the 990 immediately draws attention to the extremely low amount spent on the stated mission of the charity of providing cancer relief services. To mislead donors and regulators, as stated in the Federal Trade Commission rulings:

"The complaint alleges that, to hide their high administrative and fundraising costs from donors and regulators, the defendants falsely inflated their revenues by reporting in publicly filed financial documents more than \$223 million in donated 'gifts in kind' which they claimed to distribute to international recipients. In fact, the defendants were merely pass-through agents for such goods. By reporting the inflated 'gift in kind' donations, the defendants created

the illusion that they were larger and more efficient with donors' dollars than they actually were. Thirty-five states alleged that the defendants filed false and misleading financial statements with state charities regulators. In addition, the FTC and 36 states charged CFA, CCFOA and BCS with providing professional fundraisers with deceptive fundraising materials. The FTC and the attorneys general also charged the defendants with violating the FTC's Telemarketing Sales Rule (TSR), CFA, CCFOA and BCS with assisting and facilitating in TSR violations, and CSS with making deceptive charitable solicitations."

So outside of self-compensation and fundraising, what were the charities actually spending any money on? According to the federal complaint, "Donations intended for the sick paid for extravagant insider benefits, including cars, college tuition, gym memberships, concert tickets, a Caribbean cruise and trips to Las Vegas and other touristy locales." According to a CBS news article, many of the items actually sent to hospitals and cancer support services were:

"Virtually worthless. It consisted of boxes of 'seemingly random items' that typically included Carnation Instant Breakfast drink, adult briefs and bed pads, sample-sized soaps, Little Debbie snack cakes and blank seasonal greeting cards, according to court documents. The items were mostly purchased from procurement agents, who sell overstocked, out-of-season and discontinued products to nonprofits at a small fraction of their retail value."

Follow Up

The case of Reynolds' fraudulent cancer charities was the largest multi-state prosecution of a nonprofit that the FTC had ever prosecuted. In the end a settlement of \$75 million dollars was reached, the offending charities were closed, and James Reynolds Sr. was banned from ever working for a nonprofit organization again. However, other than going after the personal assets of Reynolds Sr., there was no way for the government or states to recoup the wasted money. The remaining assets in the charities were used to pay legal fees and what remained was divided among legitimate charities.

Questions

1. Personal leadership
 - a. What leadership or follower shadows did Reynolds and others cast while participating in the sham?
 - b. Why did staff with knowledge of the fraud not have the moral courage to come forward?
2. Organizational (nonprofit) and systemic (sectors)
 - a. How are charitable frauds of this magnitude possible?
 - b. Why did it go unreported/undiscovered for so long?
3. Ethical theory (perspective)

- a. How are donors able to regain trust in charitable organizations?
 - b. Why should donors trust charities?
4. Stakeholder (perspectives)
- a. What are some questions potential/current donors should ask before making the commitment to support an organization?
 - i. What is the nonprofit's purpose?
 - ii. Is the nonprofit's financial picture transparent?
 - iii. What outcomes result from the nonprofit's work?
 - iv. Does the nonprofit provide timely updates?
 - v. What percentage of my donation goes to the cause?
 - b. How did regulatory oversight fail so miserably in this case?

Resources

Tampa Bay - [Reynold's Network](#)
Nonprofit Quarterly - [Results of the Case](#)

Notes

CBS - [Sham Cancer Charities Settle Massive Fraud Case](#)
FTC - [Sham charity operators turn the Big C into a Big Con](#)
FTC - [Case Documents](#)
FTC - [Timeline](#)
Guidestar - [Cancer Fund of America 990s](#)
NBC - [Sham Cancer Charities Raked 75 Million Get Shut Down](#)
Nonprofit Quarterly - [Cancer Charities Case Settled but the Moneys Gone and Reynolds Walk](#)
Nonprofit Quarterly - [CNBC American Greed will Feature Reynolds Cancer Charities Scam](#)
NY Times - [4 Cancer Charities Are Accused of Fraud](#)
Tampa Bay - [Here's where Cancer Fund of America donations went while dying kids got Little Debbie snack cakes](#)
The Atlantic - [Are you Donating to Charity or Lining Someone's Pockets](#)
USA Today - [Sham Cancer Charities Face Federal Charges](#)