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MASTER OF NONPROFIT ADMINISTRATION

Change the World with Nonprofit Leadership

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Nonprofit Ethics Case

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NPA 601: Nonprofit Ethical Leadership

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Spring 2022

1. **Title**

New Era Philanthropy or Old Con-Artist Scam?

2. **Summary**

This case study covers the unethical behavior that led to the rise and fall of The Foundation for New Era Philanthropy, founded in Radnor, Pennsylvania by John G Bennett Jr. in 1989. New Era Philanthropy was established to advise nonprofit organizations on management and fundraising techniques. It raised millions of dollars from over a thousand donors through false representations of the organization. Victims that fell under this scam included prominent organizations such as Harvard University, University of Pennsylvania, Planned Parenthood, and the Philadelphia Orchestra. In 1995, Bennett Jr. was charged with 82 counts of money laundering, wire, mail, and bank fraud, to which he plead no contest.

3. **Applications**

Faith Based Fraud- Affinity fraud is a type of fraud that exploits trust and friendship, and occurs when a con artist targets member of an identifiable group, such as a religious community. The individual will work their way into the group and earn respect from leaders to appear to be credible and legitimate and use the leaders to help spread word of their scheme. John Bennett Jr. was a well connected evangelical Christian who took advantage of

these connections to start and fuel New Era Philanthropy. It is not just the evangelical Christian community that needs to be wary of these schemes, as shown when the Jewish community was targeted by Madoff, the Catholic community by Piccoli, and the Mormon community by Merriman. It is easy to understand why an individual would implicitly trust in their community, but that implicit trust is what these fraudsters prey upon. It is the responsibility of the individual to be wary of such schemes and always be diligent in checking the credibility and legitimacy of an organization.

Unethical Leadership - Bennett acted unethically as a nonprofit leader in many ways including: misrepresenting his organization, falsifying organizational financial documents, and embezzling money from others for his own good. The Pennsylvania Solicitation of Funds for Charitable Purposes Act specifically prohibits:

- Soliciting without a valid registration;
- Utilizing any unfair or deceptive act or practice of fraudulent conduct, as defined by the Unfair Trade Practices and Consumer Protection Law; and
- Misrepresenting or misleading anyone with respect to goods or services or personal affiliations.

Oversight - As mentioned above, Bennett was able to run his scheme for so long because so many victims failed to do their due diligence and check for the appropriate documentation and information prior to commencing business with New Era. This extends beyond those in the evangelical Christian community that Bennett targeted, to the Board of Directors involved in interactions between their respective organizations and New Era, and further to the Pennsylvania Attorney General and department. While the Attorney General and department may not have done business with the Foundation for New Era Philanthropy, they failed to obtain accurate documentation or audit information due to a lack of resources and staff. It is the responsibility of the Board of Directors to make influential and informed decisions for their organization, and Bennett's ability to get away with false documents and false information, such as a fake Board of Directors, shows an oversight in the research performed by these Boards. It is the responsibility of the Attorney General to regulate nonprofits in Pennsylvania, and the acceptance of Bennett's many inadequate documents and financials show an absence of adequate oversight from the Attorney General and department.

4. **Outcomes**

Due Diligence - The fall of New Era Philanthropy partially came about due to Albert Meyer's due diligence and thorough care he took while working for Spring Arbor College. Meyer noticed what he considered to be a "red flag" while going through the financials at Spring Arbor. His persistence in following up the inconsistencies that he found led him to uncovering truths about the scams of New Era Philanthropy. His determination to alert others was also what permitted the creation of the Wall Street Journal article that was produced in

1995 and released at the same time as New Era's bankruptcy, both instrumental to the Foundation's fall. This demonstrates the importance of performing due diligence when investigating opportunities, obtaining appropriate documentation and financial transactions, and making no assumptions.

Government Resources - The Pennsylvania Attorney General and department admitted to a lack of adequate resources to appropriately regulate New Era Philanthropy and the many other charities established in Pennsylvania. This shows a need for enhanced systemic support, and the need for more government resources, or perhaps a different form of resource for regulating charities.

5. Video

Interview with Albert Meyer, an individual who was instrumental to the fall of the Foundation for New Era Philanthropy. <https://www.youtube.com/watch?v=k3iHuKtCqiQ>

12 Steps to Get the Truth from Anyone. https://www.youtube.com/watch?v=Q4a_Y3yQerk

6. Description

The Foundation for New Era Philanthropy was established in 1989 in Radnor, Pennsylvania to advise nonprofit organizations on management and fundraising techniques. Leader, John Bennett Jr, raised \$3.3 million dollars from over one thousand donors using fraudulent fundraising techniques. Victims included organizations such as Harvard University, University of Pennsylvania, Planned Parenthood, and the Philadelphia Orchestra. With such a strong rise can come a swift and hard fall, and in 1995, Bennett's ponzi scheme caught up with him. The Foundation for New Era Philanthropy had a spectacular public fall with the release of a critical article by the Wall Street Journal coupled with its inability to repay a \$44 million dollar loan from prudential securities, leading to bankruptcy. In September of 1996, Bennett plead no contest to 82 counts of money laundering, wire, mail, and bank fraud.

A former drug counselor, Bennett had a friendly and outgoing persona but also presented as a commanding, serious and successful businessman. Before starting the Foundation for New Era Philanthropy, Bennett was an active member in his church and counted several influential evangelical leaders as friends. To begin his program, the "New Concepts in Philanthropy Fund", Bennett requested \$5,000 from his friends that was meant for another organization and claimed that he could double the money in 3 months and then give the doubled gift to the intended recipient. Bennett claimed that he had a wealthy beneficiary behind the scenes who would match the gifts contributed. This donor, Bennet claimed, wished to stay anonymous, and believed that the practice of matching gifts, rather than donating a lump sum, would motivate other donors to contribute, and grow the initial donation. Bennett never explicitly said that his wealthy investor friends were beneficiaries, however due to the closeness of the relationship he had to influential people, people made

assumptions. This elusive panel of donors was so attractive, individuals such as former US Treasury Secretary William E. Simon requested to be a part of it. Bennett never responded to any of these requests, but Simon was so compelled, he sent the money anyways.

If anyone asked for receipts, Bennett had an array of falsified financial documents, including proof of government bonds and incorrect audit statements. If anyone questioned the three month period, he explained it away as a period for performing due diligence research on the intended organization, and that the money was to be placed in a government bond for that time and any interest would be used for New Era Philanthropy's overhead costs.

Bennett received an increasing amount of donations, and soon the gifts were growing to amounts such as \$250,000 with prominent organizations. Bennett made many private investments with the money he was receiving, and also used some of it to secure a \$44 million dollar loan from Prudential Securities. This loan was meant to be used to "double" some of the contributions Bennett had received. Bennett was struggling to match all of these contributions, and also started a salesforce in which agents would receive a 10% commission for each gift they received.

New Era Philanthropy's fall came about through several different methods that each came to fruition in their own time. In 1993, the Attorney General office had received an inquiry regarding the legitimacy of the Foundation for New Era Philanthropy. This caused an investigation and requirement for New Era to provide financial documents to the Attorney General. Bennett provided falsified documents that were accepted with the understanding that New Era did not have the resources appropriate to perform an adequate financial audit. Additionally, accountant Albert Meyer at Spring Arbor College had noticed a wire transfer from his organization to an organization he was unfamiliar with, "Heritage of Value Foundation". After much digging, Meyer found that "Heritage of Value Foundation" was eerily closely named to the "Heritage Foundation", a well-known think tank in DC, but was actually the Foundation for New Era Philanthropy doing business as "Heritage of Value Foundation". Meyer managed to obtain 990 documents for New Era Philanthropy, and noticed many inconsistencies and impossible errors. Meyer brought this information to his supervisors but was told to remain quiet in fear that they would not receive the increased gift they had given to New Era Philanthropy. Meyer did not, in fact, stay quiet, and went so far as to go to the Evangelical Council for Financial Accountability, the Securities and Exchange Commission, the American Institute of Certified Public Accountants, the IRS and the Philadelphia Inquirer. He finally encountered a reporter at the Wall Street Journal that took his story, and finally, on May 15, 1995, Meyer succeeded in getting his suspicions of New Era out via an article on the wall street journal that was produced criticizing the Foundation. The same day, New Era Philanthropy faced a lawsuit demanding repayment for a \$44 million dollar loan, leading them to file for bankruptcy protection.

In September of 1996, Mr. Bennet was charged with an 82 count indictment and Mr. Bennett pleaded no contest to 82 counts of fraud, money laundering, and received 12 years in prison without any possibility of parole in exchange for raising \$354 million based totally on fraudulent premises. Bennett's attorney argued that he meant no harm, and that "he was only a person that suffered from delusions and was not sure what he was doing most of the time." They actually went as far as to attempt an insanity defense, but were denied.

The scandal was so alarming that it led to a Joint State Government Commission report to determine whether the Pennsylvania Solicitation of Funds for Charitable Purposes Act was comprehensive legislation to prevent such an incident from occurring again. It was found that the Attorney General and department had not regulated the foundation appropriately, but that the Act was indeed comprehensive, although execution was lacking. It went on to mention that citizens who did not exercise reasonable inquiry, skill, or diligence may not be protected by the legislation.

Bennett spent nearly 11 years at a correctional institution before being released to a halfway house, and was required to give up \$1.5 million dollars in personal assets. Many of the organizations that had received fraudulent donations from the Foundation for New Era Philanthropy returned their money, resulting in charitable institutions recouping roughly 63 cents per every dollar. Unfortunately, the philanthropists who filed claims in court likely did not see a cent. After Bennett's release, he declined to speak on the events of New Era Philanthropy, stating, "that's history; it's over now."

7. Questions

- 1) Do you believe that Bennett was actually insane and delusional, or do you believe that he was capable of examining his own ethical or unethical behaviors? If he was incapable, who, if anyone, should have stepped in to prevent him from these unethical acts?
- 2) How can you determine if your compass of "ethicality" is correctly aligned? Do you discuss your ideas of ethicality with others? If so, who?
- 3) Did the members of the Foundation for New Era Philanthropy's salesforce have a responsibility to look into the work they were doing? Did they have a responsibility to not accept the commission they were offered?
- 4) Should there be more vigilance in policing charitable entities and practices used to inspire citizens to pursue charitable activities? Who should this be performed by?
- 5) Did the Pennsylvania Attorney General have a responsibility to step in sooner than they did? The regulators were said to have possibly been charmed by Bennett leading to them not being as thorough as they may have normally been. How can we prevent this sort of manipulation from occurring in the future?

- 6) Ponzi schemes are an unfortunately common form of fraud. How can we as leaders better inform individuals on recognizing ethical business practices and diligent fundraising practices?

8. Resources

- You can report suspected charity frauds to the [FTC](#) and the government agency in your state that [regulates charities](#);
 - https://urldefense.proofpoint.com/v2/url?u=https-3A_reportfraud.ftc.gov_-23_&d=DwMDaQ&c=qgVugHHq3rzouXkEXdxBNQ&r=PG0zTNjl-fj7d-XGRKf0XQ&m=dwTsDGXId0CB4dtNHibsnRqK1vIl96Q4mZACrCM7r6LMYKJjmZztAJYF_uXMRTsa&s=tNZ2J2lxV7zlnnA9C5EwwKDZfbfE4_4wL0vssYl7vtw&e=
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- To file a complaint against a nonprofit or charitable organization ([in California](#));
 - <https://oag.ca.gov/charities/complaints>
- Tips to [avoid charity scams](#);
 - <https://www.aarp.org/money/scams-fraud/info-2019/charity.html>
- Book: *Preventing Fraud in Nonprofit Organizations*, by Edward J. McMillan
- Book: *Intuition: Its Power and Perils* (Yale Nota bene), by David G. Myers

9. Endnotes

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