

THE AMERICAN RED CROSS GOVERNANCE REFORM

HEARING BEFORE THE COMMITTEE ON FOREIGN AFFAIRS HOUSE OF REPRESENTATIVES

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THE AMERICAN RED CROSS GOVERNANCE REFORM

WEDNESDAY, MARCH 14, 2007

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 10:03 a.m., in room 2172, Rayburn House Office Building, Hon. Tom Lantos (chairman of the committee) presiding.

Chairman LANTOS. The committee will come to order. Wherever disaster strikes, the American Red Cross responds. In times of crisis, its staff of some 35,000 and more than 1 million volunteers take on the daunting task of translating the compassion of the American people into shelter, clothing, and food.

Be it a fire that puts a family out of its home, or a tornado that tears through an entire community, it seems the Red Cross is always on the scene answering the call, at an astonishing 75,000 such incidents in the last year alone.

But disaster relief organizations such as the American Red Cross have come under heightened scrutiny after 9/11 and the Gulf Coast hurricanes. They must now demonstrate as never before that they are acting responsibly, and in the best interests of the American people.

Hurricane Katrina, in particular, crystallized the need for reform, and thereafter the leadership of the American Red Cross wisely undertook a comprehensive review. It conducted a 6-month, top-to-bottom governance audit, headed by one of our witnesses today, Karen Hastie Williams.

After more than 100 interviews of past and present Red Cross officers, volunteer chapter leaders, donors and others, the verdict was in: The Board of Governors required a major overhaul.

It is worth noting here that when the Red Cross last reorganized itself, in 1947, local chapters gained influence by getting seats on the board. But over time the board swelled to over 50 members. Its unwieldy size and parochial nature made the CEO's job one of the least secure at any American charity. Now the Red Cross board has decided to slim down to 20 members or less. Where previously some board members were selected by local chapters, some were elected by the board, and others were appointed by the President, the board will now be comprised solely of governors elected by delegates to the Red Cross annual meeting.

Among other important changes, the board approved ways to raise the profile of the whistleblower process for Red Cross employees and volunteers. While these changes, which require congress-

sional action, would not directly affect the organization's disaster response, it will undoubtedly help promote the kind of leadership necessary to make Red Cross management and operations run more smoothly.

Our hearing today is to examine these proposed governance changes. It is our intention to move forward with legislation that will address the deficiencies the Red Cross has identified, and this hearing is the first step in our legislative action.

The Red Cross has mobilized American citizens to help their neighbors for over 125 years. It is charged with the crucial role of helping the United States plan for and respond to emergencies, whether they are acts of terror or acts of God.

The proposed changes that we will discuss today are an integral part of supporting the critical mission of the Red Cross in the 21st century. I will now turn with great pleasure to my friend and colleague from Florida, the esteemed ranking member of the committee, Ileana Ros-Lehtinen.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Chairman. It is always a pleasure to be with you and to be recognized to make a few statements about this critical issue. Thank you so much to our witnesses for appearing before us today.

I am very pleased that our committee, under the chairman's leadership, has taken this opportunity to review the internal governance structures at the American Red Cross. This is the committee of jurisdiction in the House of Representatives in this matter, and we want to make sure that we consider reforms that would ensure good governance for a very important organization.

After all, it is the American Red Cross which has been assigned the responsibility by the Federal Government of fulfilling the obligations of the United States under the Geneva Conventions for carrying out peacetime disaster relief functions.

These are unique responsibilities, which is evidence of the high regard with which the Red Cross has held in the minds of the Members of Congress. My colleague, Chairman Lantos, is in fact considering possible legislation to support such changes, and has consulted with me and my staff on his efforts to date.

I am hopeful that Chairman Lantos' efforts will result in a bipartisan measure that this committee and this Congress can support. The Red Cross, as all of us know, has been helping the victims of war and natural disasters since its founding in 1881.

As a Member of Congress from Florida's Eighteenth District, I particularly note its efforts to respond to numerous hurricanes and tropical storms that have afflicted the residents of my State, and I was happy to see that just a few weeks ago when we had some disastrous tornadoes rip through central Florida, there was the American Red Cross right on hand.

In fact, our former Governor, Jeb Bush, recognized the incredible and heroic efforts of the American Red Cross during the last hurricane season. So we thank you for everything that you have done on a very personal level for the State of Florida.

On January 12, 2006, the Red Cross reported that it had raised \$2 billion for Hurricane Katrina relief alone, the largest sum of money ever raised by one charity. Its efforts, together with those of other nongovernmental organizations, faith-based organizations,

other nonprofits, and private sector initiatives, were and are crucial to helping those in need.

Certainly concerns have been raised concerning Red Cross operations and its response to Hurricane Katrina, and other disasters. I am hopeful, however, that this hearing and subsequent actions by this Congress will focus on the best ways by which we can move forward, pursuing bipartisan reform of a national nongovernment organization that has played, and can play a tremendously constructive role when disaster strike.

With that in mind, I hope that our distinguished witnesses will be able to address several important issues regarding governance reform. First, past and present legislative proposals have included provisions to create an American Red Cross Office of the Ombudsman to report annually to Congress on any trends or systemic matters confronting the corporation.

I would ask our panelists if they believe such an office would be effective in improving governance; what specific reforms are needed to ensure an ombudsman's independence from internal pressure.

The performance and accountability of federally-funded organizations is often enhanced by the presence of an inspector general, whose duties include conducting and supervising audits and investigations, providing leadership and coordination, and recommending policies to promote economy, efficiency, and effectiveness, and prevent and detect waste, fraud, and abuse. And providing a means for keeping the organization's head and Congress fully and currently informed about problems and deficiencies.

Does the American Red Cross have an inspector general? If so, is he or she tasked with the responsibilities I mentioned? If not, that the governance review procedures contemplate the addition of an inspector general's regime within the Red Cross. Congressional oversight in forthcoming legislation on this matter should assist the American Red Cross to encourage proactive behavior and original thinking that anticipates the challenges of the future.

For example, what governance reforms would in your opinion provide incentives for out of the box creative thinking within the organization on possible responses to future mass disasters? What measures have the American Red Cross taken to date to encourage such thinking?

In appreciating the unique and invaluable service of this organization, it is important to note the words of the founder of the Red Cross, the great humanitarian and civil war nurse, Clara Barton, when she said the Red Cross, in its nature, its aims and purposes, and consequently its methods, is unlike any other organization in the country. It is an organization of physical action, of instantaneous action, at the spur of the moment. It has by its nature a field of its own.

I am pleased that we are holding today's hearing as we discuss how to best reform certain aspects of the Red Cross so that this organization might continue its remarkable work in this 21st century. I thank the chairman for his time, and I thank the witness also.

Chairman LANTOS. Thank you very much. Are there any colleagues who would like to make an opening statement? Mr. Scott of Virginia.

Mr. SCOTT. Just very briefly, Mr. Chairman. I certainly would like to take this opportunity to thank the Red Cross and commend you for just a suburb job you have done over the decades in responding to disaster. You all have been at the tip of the spear in responding to disaster.

And Ms. McElveen-Hunter and Ms. Williams, we certainly welcome you to the testimony. I also would like to reaffirm our office's work with your office in the Atlanta region. We understand that you are working very feverishly to triple your warehousing space in my district at Fort Gilliam, and my office in Jonesboro is working with you all on that.

It is so critical that we have a first responder base right in the Atlanta metro area, and with the Red Cross there, and with FEMA there, and still with the remanent of the National Guard, we are turning that base closure situation from a negative into a very positive, and you all are playing a very important role in that.

And I wanted to commend you for that and make sure that you know that my office stands ready to do even more to assist you in making sure that you get what you need at Fort Gilliam. Thank you very much, Mr. Chairman.

Chairman LANTOS. I want to thank my friend from Georgia for his typical thoughtful remarks. We have an exceptionally talented panel with us today to discuss the American Red Cross governance reform.

Ambassador Bonnie McElveen-Hunter was appointed chairman of the American Red Cross by the President in June 2004. She served as U.S. Ambassador to Finland with distinction from 2001 to 2003. There she, among other things, not only learned Finnish, but Hungarian, where she led several initiatives to success, such as the stop child trafficking initiative, and the end modern day slavery.

Ambassador McElveen-Hunter is also CEO and owner of Pace Communications, the largest private custom publishing company in the United States.

Ms. Karen Hastie Williams is a partner at Crowell and Moring, where her law practice focuses on public contract law, legislation, and strategic diversity counseling for corporate clients.

She served as chair of the Red Cross Independent Governance Advisory Panel. She has a law degree from Catholic University School of Law here in the Nation's capital.

She was the first African-American woman to serve as a law clerk for the great Supreme Court Justice Thurgood Marshall, and served as chief counsel to the Senate Committee on the Budget in the late 1970s. We are delighted to have both of you, and I look forward to your testimony. You may proceed, Ambassador McElveen-Hunter.

STATEMENT OF THE HONORABLE BONNIE MCELVEEN-HUNTER, CHAIRWOMAN, AMERICAN RED CROSS

Ambassador MCELVEEN-HUNTER. Chairman Lantos, Congresswoman Ros-Lehtinen, and members of the committee, I am first of all a grateful American, a business owner as you have heard, a former citizen Ambassador to the great republic of Finland, and

now proudly a volunteer as chairman of the board of the American Red Cross, the greatest humanitarian organization in the world.

An organization that I have witnessed reach out to the least, and the last, and the lost, at their most critical hour of need. An organization that is guided by our congressional charter, but is led by volunteers, and is supported by the great generosity of the American people.

We are an organization of 35,000 employees, but we are also an organization of almost 1 million volunteers. We are a less than perfect organization, but I want you to know where I have personally witnessed the power of our work across the street, around the globe, I witnessed our work in the shelters in the Gulf Coast following the devastation of Katrina, Rita, and Wilma.

I have witnessed the power of our work in Darfur refugee camps in Chad, Africa. I have witnessed our work in the rebuilding of homes and lives following the devastation of the tsunami. I have witnessed our work as we have saved the life of a child undergoing chemotherapy with lifesaving blood.

In October 2004, I was nominated and selected by the Red Cross Board's Search Committee, and I assumed my mission as chairman, and from August through September 2004, Hurricanes Charlie, Frances, Ivan, and Jeanne, hit Florida and required the largest response to a natural disaster in our 124-year history.

Some say timing is everything. Two months later, in December 2004, a tsunami hit with the energy of 23,000 Hiroshima bombs in Southeast Asia, and less than a year later, in August 2005, Hurricanes Katrina, Rita, and Wilma, devastated the Gulf Coast, which produced the largest response to a natural disaster in our 125-year history.

Shortly after our immediate response to Katrina, and while still helping hundreds of thousands of survivors, the Red Cross initiated a top-to-bottom review of our operational response, and our capabilities, and critical analysis of our performance.

I have attached a copy of the report, Challenge to Action, which I respectfully request to be included in the record.

Mr. DELAHUNT [presiding]. Without objection.

[The information referred to follows:]



From Challenge to Action:

American Red Cross Actions
To Improve and Enhance Its
Disaster Response and Related Capabilities
For the 2006 Hurricane Season and Beyond

June 2006

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Executive Summary

Three hurricanes in 2005—Katrina, Rita and Wilma—caused so much human suffering and devastation that their names will never again be used for any tropical weather system. The scope of their destruction will always be remembered: 1.4 million families displaced from their homes; an area the size of Great Britain devastated. For the American Red Cross, which sent nearly 245,000 relief workers to help, the storms revealed the organization's special strength—the willingness and ability of trained volunteers to sacrifice their comfort to help total strangers. The hurricanes also exposed weaknesses that demanded the attention of Red Cross management. Despite its success in meeting the challenges of approximately 70,000 disasters annually, the charity recognized the need to more effectively create and sustain local partnerships; incorporate the application of new technology; pursue staff diversity; apply comprehensive internal controls; and modify its service delivery in an ever-changing environment.

Even as it continued to aid survivors of the 2005 hurricanes, the Red Cross realized that it needed to address its deficiencies and take significant actions to improve its performance during future hurricane seasons. This paper, "From Challenge to Action: American Red Cross Actions To Improve and Enhance Its Disaster Response and Related Capabilities For the 2006 Hurricane Season and Beyond," summarizes the results of this analysis.

The Red Cross has already made significant improvements in its disaster relief program and is far better prepared to meet the challenges of the 2006 hurricane season. The Red Cross has acted in three key areas:

1. **Executed a plan of action to improve Red Cross operational and business capabilities.** For example, the Red Cross is moving to implement a single, standardized financial management and control system that will include its 804 chapters, national headquarters and 35 Biomedical Services regions. It is building a best-in-class logistics and supply-chain capability that will be integrated with Red Cross financial systems.
2. **Enacted more vigorous internal controls to protect against fraud, waste and abuse.** This includes building a stronger culture of accountability and an awareness of how to report and address suspected fraud and misappropriation and creating a series of measures designed to better control its disaster relief casework and financial assistance methodologies.
3. **Created a renewed and refreshed focus on serving communities and building partnerships.** The Red Cross will focus on integrating partner groups directly into service delivery, working more inclusively with the diverse community, faith-based groups, civic organizations and other special-interest groups.

The Red Cross recognizes that implementing lasting change takes time. To that end, it is working on the broader fundamental changes, including investing in and making better use of technology, creating savings and efficiencies in conducting back-office operations and becoming more sensitive and responsive to the diverse constituencies it serves. Together, these changes comprise the top priority of Red Cross management and its Board of Governors.

I. Overview

The 2005 hurricane season included a number of firsts: Hurricane Katrina was the first storm to cause residents of an entire metropolitan area to flee and be unable to return for months; it was the first to cause a diaspora of disaster victims to every state, plus the District of Columbia, Puerto Rico and the U.S. Virgin Islands; it was the first time the Red Cross served a million meals in a single day; it was the first time the Red Cross provided financial assistance to more than a million American families after a single disaster.

Hurricane Katrina, followed by Hurricanes Rita and Wilma, challenged the American Red Cross in many ways. Some challenges were anticipated, others were not. This report will explore those challenges and detail the actions the American Red Cross is taking to meet future challenges.

Responding to a disaster of any magnitude is difficult and complex, but the fundamental elements of an effective response are fairly simple: people, materials, systems and coordination. The challenge lies in putting the right materials in the hands of the right people with the right skills and training in the right place at the right time, with the right documentation.

It is true that the remarkable volunteers of the American Red Cross fed and sheltered entire communities for weeks or months, even when the communications, power and fuel-delivery infrastructures were, to paraphrase the governor of Mississippi, reduced to a pre-Civil War state. It is true that many of the challenges that arose during the hurricanes are intrinsic to disaster relief. However, it is equally true that some issues that came to light were the result of poor coordination by the Red Cross with its partners or because of weakened financial, technology and business systems that had not been sufficiently modernized to accommodate the catastrophic proportion of the 2005 hurricane relief effort.

In searching out the root causes, it becomes apparent that there are at least five:

- Some are intrinsic in the nature of disaster relief;
- Some stem from a lack of pre-disaster investment;
- Some stem from misunderstanding the mission and role of the Red Cross;
- Some stem from Red Cross culture; and
- Some stem from a change in public expectations.

The Red Cross has made significant progress in responding to the most urgent issues, as will be shown later in this paper; however, some of the necessary changes require broader and deeper cultural shifts that will take longer to achieve.

II. The Hurricanes

On August 23, 2005, Tropical Depression 12 became Tropical Storm Katrina. Fueled by the warm late-summer waters, the system rapidly intensified. Hurricane Katrina made landfall as a comparatively weak Category 1 hurricane in South Florida on August 26, causing power outages and some heavy flooding. Crossing into the even-warmer Gulf of Mexico, the storm gathered more power and energy as it headed northwest for the next three days. Hurricane Katrina's winds eventually attained 175 miles per hour, making it an extremely dangerous Category 5 storm as it approached the Gulf states.

By August 27, before any calls had been made for the evacuation of New Orleans, the Red Cross was moving its emergency response vehicles (ERVs) from throughout the East Coast and Midwest into staging areas and flying three full teams of relief operation leadership volunteers into areas just out of harm's way. By the next day, the American Red Cross was already providing shelter and food to thousands, while also moving in tons of supplies, including kitchens, prepackaged meals and the entire national fleet of emergency response vehicles.

On August 29, Hurricane Katrina made landfall in Louisiana as a powerful Category 3 storm, causing tremendous destruction to Mississippi, Louisiana and Alabama. The precarious situation deteriorated exponentially when the levees around New Orleans and its suburbs were breached and overtopped, flooding scores of established neighborhoods in the already battered city and its suburbs. In a matter of hours, millions of people became desperate for safety, shelter, food and water as the world watched on television.

One month later, Hurricane Rita made landfall at the Texas-Louisiana border with winds of 115 miles per hour. Sheets of rain and pounding waves again flooded coastal communities, uprooted trees and tore apart numerous buildings. The final blow to the region came in the form of Hurricane Wilma at Category 3 strength on October 24. Not only was Wilma the twenty-first named storm of the season, for a time it became the most intense hurricane in recorded history.

In response, a total of nearly 245,000 Red Cross relief workers—some of whom were storm victims themselves—answered the call for help. They fanned out to feed, comfort and care for millions of storm survivors. This devastating hurricane season tested the spirit, determination and cooperation of the entire country. Given the incredible demands, America rose to the challenge, providing care and comfort to millions of people struggling to simply get through another day. (See appended graphs, pp. 24 – 25.)

From Southeastern Texas to the Florida Keys, the hurricanes left 400,000 homes uninhabitable, creating the largest need for sheltering in U.S. history. The Red Cross opened more than 1,300 shelters across 27 states and the District of Columbia. Recreation centers, churches, schools and agencies partnered with the Red Cross to provide 3.4 million overnight stays from August to December. The Red Cross also responded to a Federal Emergency Management Agency (FEMA) request and created the mechanisms that stabilized additional hundreds of thousands of evacuees in hotels in safe areas and avoided the need to move these evacuees back into the sheltering system.

More than 68 million meals and snacks were distributed in the feeding effort. This is equivalent to feeding three meals to every man, woman and child in the state of New York. The Red Cross also had the enormous responsibility of looking out for the physical and mental well-being of the survivors. The organization fielded thousands of licensed medical and mental health volunteers who handled more than 1.7 million cases, ranging from replacing missing medications to counseling the traumatized. It was a response of great magnitude that tested the limits of the Red Cross.

The Red Cross would not be able to provide its services free of charge to disaster survivors if it were not for generous donations from all over the world. A total of \$2.1 billion was collected for disaster relief through April 2006. The total cost for the Red Cross is projected at \$2.1 billion.

More than four million hurricane survivors received Red Cross emergency financial assistance, which helped them purchase urgently needed items such as food, clothing, diapers and other essentials. The estimated cost of this assistance, as of April 2006, was \$1.5 billion.

Nearly 500,000 survivors of Hurricanes Katrina, Rita and Wilma stayed in Red Cross shelters. At the height of the effort, the Red Cross served close to one million meals in a single day. The Red Cross, in partnership with the Southern Baptist Convention, served more meals than in any previous disaster. The Red Cross also distributed hundreds of thousands of clean-up kits and comfort kits containing personal hygiene supplies. The amount spent on food and shelter combined was \$246 million.

It is important to recognize that there were many heroes at work during and after these hurricanes hit, namely the nearly 245,000 workers who served in the recovery effort. Only through their efforts were many thousands of Americans fed and sheltered for weeks, and given emergency financial assistance and psychological first aid. Nothing in this critique of systems, processes and culture should reflect unfavorably on these selfless individuals.

Today, as families begin transitioning back to local communities, the Red Cross will be a part of the recovery process for years to come. Through its network of local chapters, the Red Cross will continue to provide essential services to hurricane survivors, working in conjunction with community groups to address longer-term needs left in the wake of these storms. The Red Cross remains eternally grateful to those who gave their money, time, tears and hope to survivors in the devastated region.

III. Challenges to Red Cross Programs, Systems and Controls

The unprecedented needs created by the hurricanes of 2005 gave way to unprecedented challenges for the American Red Cross. Following the initial Red Cross response to these horrific storms, the organization conducted an in-depth review of its response, which included surveys of clients, donors, partners, workers and the public at large, along with in-depth conversations with many community leaders, corporate partners and other members of the nonprofit community.

The review showed that more than 88 percent of a random survey of more than 1,500 clients rated the services they received from the Red Cross as “good” or better. There are numerous opportunities to improve, however. Indeed, the leadership of the organization has made a commitment to improve in several key areas, including: service delivery, operational and business capabilities, and accountability in Red Cross business systems.

Before outlining the specific plans, programs and reforms that have been implemented or are now under development to improve service delivery and enhance accountability, the following section summarizes the key systemic challenges that impaired Red Cross effectiveness during the 2005 hurricane response.

A. RELIEF OPERATION CHALLENGES

Supply and logistics infrastructure: The Red Cross has a network of donated warehouse space dispersed across the country, stocked with cots, blankets and other basic supplies for immediate sheltering and feeding. In the days immediately following the onset of a disaster, the Red Cross typically establishes temporary field warehouses closer to the actual disaster area, recruits large numbers of volunteers and implements logistics management systems that attempt to scale up to the size required by the event.

In such a disaster environment, there is always a tension between providing immediate service delivery and implementing the established management systems and controls. While the Red Cross had internal controls and proven standard operating procedures in place prior to 2005, its systems were not able to scale up sufficiently to completely address the catastrophic scope of the 2005 hurricanes.

In order to expedite service delivery, the organization was forced to ship, receive and distribute supplies and equipment before the structure and controls of its logistics systems were fully in place. Moreover, the organization had not implemented a modern asset-tracking system, which was sorely needed. Beyond the system itself being stretched, the Red Cross discovered that it did not have enough sufficiently trained and experienced volunteers to run the logistics operations. To complicate matters, in many instances, planned dependencies on government partners did not work well, for a variety of reasons. In short, while the logistics and related Red Cross disaster response systems had repeatedly succeeded during routinely recurring disasters, they were stressed when confronted with the magnitude of Hurricane Katrina.

Relief operation management: The Red Cross has 804 chapters across the country. One of the strengths of the Red Cross is its ability to ramp up its presence in the affected area when disaster strikes. The “Red Cross” in a community during such a disaster may transition from being one paid staff member with a total annual budget of \$100,000, to 1,000 employees and volunteers distributing meals and assistance in excess of \$25 million. That expansion generally takes less than a week, as trained Red Crossers pour in from across the region.

In most disasters, it is a model that works extraordinarily well; trained volunteers from all over the country are able to work together within a common framework of procedures and structure. One aspect of the model that was particularly problematic during Katrina,

however, was finding enough trained and experienced managers to run the many relief operations. The Red Cross relies heavily on experienced volunteers to manage disaster operations. Many of these volunteers, however, have full-time jobs and may only be available to the Red Cross for three weeks at a time. Because of the enormity and duration of the 2005 hurricanes, the most seasoned operational leaders, both volunteer and paid staff, were stretched beyond their capacity. Key management positions had to be filled with less-experienced volunteers who were overwhelmed at times and insufficiently trained to assume the significant responsibilities assigned.

Diversity: Throughout our response to the catastrophic storms, the Red Cross was challenged to comprehensively and effectively address the needs of diverse constituencies in a vast array of communities. These constituencies included, among others, the elderly, disabled, African Americans, Latinos and Asian Americans. During the relief effort, some advocacy groups on behalf of these constituencies complained that the Red Cross had not consistently met the needs of the diverse segments of their communities. One group asserted that the Red Cross workforce lacks diversity from top to bottom, and, as a result, is not sufficiently sensitive to racial and cultural issues. Put another way, the sense was that Red Cross lacked “cultural competence” in its response to Katrina. Other groups reported Red Cross communication failures with minority populations, particularly in remote areas along the Gulf Coast. Another recurring complaint was that the Red Cross had not done an adequate job before Katrina hit to foster the necessary relationships and develop agreements with local and national organizations that serve minority populations.

Volunteers: An astounding 233,000 Red Cross volunteers (along with nearly 12,000 paid staff) were mobilized for the 2005 hurricanes. Previously, the largest mobilization of volunteers had been in response to the terrorist attacks of September 11, 2001. Because many Red Cross chapters were quickly overwhelmed by the outpouring of volunteer offers, large numbers of potential volunteers were either turned away without a referral to another agency or charitable organization responding to the storms or placed on waiting lists for days and weeks, some of whom never received any official follow-up from the Red Cross.

For some first-time volunteers who required training, their experience was frustrating as they went from chapter to chapter trying to find one that could quickly squeeze them in for the necessary basic training. However, many of the very staff members who provide this training had deployed to the Gulf Coast to work in Red Cross shelters and service centers. As a result, in some instances, with only a skeleton crew at many of its chapters, the Red Cross simply could not train all the individuals who wished to volunteer.

Customer Satisfaction Surveys indicated that the majority of volunteers who did serve during the hurricanes of 2005 had a rewarding experience. However, the Red Cross also received complaints from some volunteers, particularly first-time volunteers, that once they arrived at their assigned Red Cross location, they were given tasks that did not correspond with their background, skill set or experience. Several complained that they waited for several days in Red Cross shelters before receiving their first assignment. Others pointed out that, in some locations, there was not a reliable, standardized method to transition volunteers in and out of key jobs.

Partnerships: Some faith-based, civic and charitable organizations have complained that the Red Cross received most of the Katrina-donated dollars, but shared little of it with them to help meet community needs. While the Red Cross was the major recipient of contributions for Katrina, it also provided the bulk of the services. Moreover, the Red Cross does work in effective partnerships with many agencies, such as the Southern Baptist Convention.

The Katrina response, however, highlighted that the Red Cross had not developed strong and enduring local partner relationships in certain parts of the country, including sections of hurricane-prone states. As a result, the organization did not react consistently when opportunities to cooperate with new partners surfaced. While the Red Cross did advocate successfully on behalf of many churches, because it did not have pre-existing support agreements in place with accompanying internal controls, it was reticent to provide requested financial support in some instances. Consequently, the Red Cross missed opportunities to reach a variety of underserved areas and respond to the needs of diverse constituencies, which were sometimes more comfortable seeking services from other well-established organizations like their local place of worship.

Client shelter data: Because of the cost and the complexity of implementation, the Red Cross had been slow to establish a single, disaster-wide shelter database. Implementation had begun just as the 2005 hurricane season commenced. The Coordinated Assistance Network (CAN) shares data with other humanitarian organizations. However, because this shelter database was not fully functional during the hurricanes, the Red Cross was unable to provide up-to-date information on hundreds of shelters opened during Katrina, nor about the individuals registered in those shelters. As a result, Red Cross relief operations during Katrina, Rita and Wilma relied on information that was sometimes days old, captured manually on paper, and not aggregated and provided electronically to disaster operations centers. This led to both over- or under-counting the food and supplies required. Moreover, local emergency managers could not determine with accuracy and reliability which shelters were full and which had remaining capacity. Family members trying to locate lost relatives could not rely on the Red Cross to provide real-time verification that their loved ones were in its shelters.

B. FINANCIAL CHALLENGES

Financial systems and controls: The Red Cross relies on its extensive chapter network as its first level of response to disasters. This backbone of more than 800 chapters allows the Red Cross to respond immediately almost anywhere in the country with a cadre of local, trained volunteers. The breadth of resident expertise found within the chapter network constitutes the engine that drives an effective Red Cross response to disasters large and small. One of the more unwieldy features of the chapter network is that each chapter operates its own separate financial system. Furthermore, each local financial system has its own control structure. The downside of operating a myriad of financial systems is that the national leadership of the Red Cross has no real-time visibility of cash and transaction activity. Moreover, these 800+ financial systems/applications are managed by individuals with varying levels of financial expertise. As configured, these systems cannot talk to each other, derive no economies of scale and are non-transferable.

During Hurricane Katrina, the many diverse and divergent Red Cross financial systems frustrated efforts to make accurate disaster budget assessments and forecasts, while at the same time, internal reporting requirements imposed an additional burden on Red Cross field and national sector units. As management reviewed performance during this unprecedented catastrophe, it became clear that the Red Cross must develop and implement an integrated financial management system for financial and donations processing—with a built-in surge capacity—that allows for the uniform delivery of financial and administrative data and a timely analysis of its components.

C. TECHNOLOGY LIMITATIONS

Distribution of financial assistance: Hurricanes Katrina and Rita posed technology challenges that far surpassed anything the Red Cross had ever faced. Until these storms, the largest Red Cross operation, as measured by the number of financial assistance cases processed, had come in response to the four back-to-back hurricanes of 2004. After September 11, 2001, for example, more than 53,000 financial assistance cases were processed. During the 2004 hurricane season, the Red Cross provided financial assistance to almost 73,000 families. For the 2005 hurricanes, 1.41 million financial assistance cases were processed, nearly 20 times the number of cases processed in 2004.

Following the tragic events of September 11 and the December 2004 tsunami, the Red Cross began to evaluate the mechanisms that controlled the distribution of emergency family financial assistance and had developed a new strategy to get money into the hands of disaster victims more quickly and efficiently. Prior to the tsunami, the organization initiated the use of debit cards to provide assistance to individuals and families for the 2004 hurricane season. The debit card program became the preferred method over the more cumbersome manual, paper-based voucher and check preparation system, which, while adequate for smaller disasters, is not always a viable distribution method for larger or geographically dispersed disaster zones. Technology for this new Client Assistance System (CAS) also allowed the Red Cross to efficiently post information from each financial assistance case into the CAS database to increase real-time visibility of data and enhance financial management and forecasting—an intended benefit. When Hurricane Katrina made landfall, CAS was in the middle of a three-year implementation cycle.

Hurricane Katrina stressed CAS in ways that were not anticipated, as it had not been designed to process the number of cases needed in such a short time. The system proved incapable of handling the significant number of concurrent users who needed access to input client information during Katrina relief operations, as well as managers who needed access to the data for planning and financial forecasting. In addition, CAS had not been designed to verify and authenticate the identity of disaster victims who were seeking financial assistance. When CAS was developed, Red Cross management expected caseworkers to verify and authenticate client identification using traditional face-to-face casework practices. To further complicate matters during relief operations, the lack of electricity and computer-based access to CAS at many shelter locations forced significant portions of casework to be completed manually instead of electronically.

In many instances, this key client information was not posted to CAS until long after financial assistance had been provided. In the end, due to the massive volume of clients, it was impossible to conduct full casework and to enter data into CAS in a timely fashion. As a result, the ability to detect duplicate financial assistance payments or other potential fraudulent schemes in real-time was only partially successful. Currently, the Red Cross is investigating more than 7,100 cases (which represents one-half of one percent of all cases) of potential fraud by clients who received financial assistance.

Client Assistance Card inventory shortages: When Katrina made landfall, the Red Cross had 70,000 debit cards in inventory to use for distributing financial assistance—a supply thought to be sufficient based on previous experience. Management immediately attempted to restock, but due to supply-chain issues and the competing need for debit cards to be shipped to FEMA, the Red Cross did not receive the needed card stock for several weeks. Ultimately, approximately 200,000 cards were utilized. The need to provide financial assistance in other ways created a requirement to develop new methods of delivery, including wire transfers from Western Union, chapter and national headquarters checks, the paper voucher system, third-party check systems, bank checks and pre-loaded debit (gift) cards. National headquarters provided more than \$500 million in advances to chapters to cover many of these alternate payment methods.

D. INTERNAL CONTROL CHALLENGES

Background checks: Without the immense outpouring of volunteers, the Red Cross could not have fed entire communities for weeks or sheltered hundreds of thousands of people. That same volume led to several complaints that the Red Cross had not conducted criminal history background checks on its volunteers.

As recently as 2004, the Red Cross had looked into conducting background checks on volunteers. Due to the high cost, it was determined that background checks would only be required for *paid staff*, since in the vast majority of relief efforts, it is this group that oversees Red Cross operations. Other control procedures—such as requiring two people to open mail, never allowing only one person to supervise a shelter or be alone with children, requiring two signatures on financial documents and publicizing the Concern Connection hotline—were put in place to mitigate any risks.

During Hurricane Katrina, however, because of the unprecedented amount of financial assistance that was being provided, the Red Cross made the decision to conduct background checks on those volunteers who were part of the Disaster Services Human Resources (DSIIR) System (i.e., those volunteers who agree to travel to disaster areas to work and receive special training on Red Cross systems and procedures). The DSIIR criminal history screening effort during Katrina did identify a very small percentage of DSHR volunteers with criminal records, and those individuals were removed from the Red Cross volunteer ranks.

There was no similar requirement to conduct background checks on “spontaneous volunteers”—those individuals who offer their services during a disaster and have no previous experience or training with the Red Cross. Ultimately, many of these spontaneous volunteers dispensed financial assistance or were responsible for shelter

operations. Indeed, because the magnitude of the disaster, their service was indispensable to Red Cross relief effort.

Client identification, verification and authentication: Challenges arose when the Red Cross made the decision, in the midst of the Katrina response, to activate call centers to meet the unprecedented need of disaster victims for financial assistance. The call center environment allows casework to be done over the phone via a 1-800 number instead of through face-to-face casework done at a shelter or disaster service center. The call centers were deemed necessary because evacuees had dispersed to all 50 states in the weeks after the disaster and because the Red Cross had depleted its inventory of debit cards. Prior to Katrina, a call center environment was used to provide financial assistance in only one other disaster response, and the Red Cross had not planned to rely on this method of casework for the 2005 hurricane season. With considerable assistance from the nation's leading corporate information technology experts, it rapidly established call centers in Bakersfield, Calif.; Niagara Falls, N.Y.; and Falls Church, Va.

Having not previously implemented a robust call center method of service delivery, the Red Cross did not have a preexisting system of controls to verify and authenticate client identity from remote locations. For example, the Red Cross did not have an established caseworker script available for use. As a result, operator scripts had to be revised midstream as managers gained experience in the complexities of the call center environment. One mid-course correction required the caseworker to determine whether financial assistance had already been received by the client, since, generally, Red Cross emergency financial assistance was to be provided only once per family.

To tighten the controls in the call centers, the Red Cross rapidly turned to an outside vendor that was already a part of the process, Choice Point, to install a remote system of client verification and authentication, but was not prepared for the number of individuals impacted by the hurricanes who lived "off the grid," meaning they had no public records by which Choice Point could verify client identification. A normal expectation would be that approximately 10 percent of the population in any given community lives off the grid. However, Red Cross management discovered that closer to 50 percent of its Hurricane Katrina client base could be classified as off the grid. As a result, even in a more stringent control environment, the Red Cross was not always able to identify and prevent client fraud.

User ID and password protection: Due to the rapid ramp-up of multiple operational sites for distributing financial assistance, our traditional system for password and user ID generation and protection was overwhelmed. This, coupled with the significant number of new volunteers and temporary staff who had not been trained sufficiently on system security controls, led to an environment in some locations where passwords and user IDs were shared in order to expedite assistance to victims. Without rigorous controls in place, some temporary contractor staff devised schemes to defraud the Red Cross. For example, in Bakersfield, Calif., more than 70 federal indictments have been issued related to fraudulent activity. Many of those cases implicate Red Cross contractors who had been working in an environment where user IDs and passwords had been widely shared.

E. FUNDRAISING CHALLENGES

One of the major challenges the Red Cross experienced during Katrina was the inability to effectively engage and leverage its corporate partners. During times of disaster, corporate partners want to provide the Red Cross with people, products, money and expertise. On numerous occasions during the 2005 hurricane season, and indeed over the past several years, corporations have offered expertise to the Red Cross that the organization was unable to take advantage of for a variety of reasons. In the aggregate, by not capitalizing on proffered corporate and outside expertise, the Red Cross suffers in three ways.

First, the organization's ability to build strong partnerships for the future is undermined. Second, by not taking advantage of expertise that exists outside the organization, the Red Cross may miss opportunities to address structural problems and tactical issues using state-of-the-art technology and solutions. Third, when the Red Cross decides to address problems/issues using only in-house resources, it may not be employing the most cost-effective solutions. Finally, not taking advantage of corporate expertise leads to negative public perceptions about the organization. Having a corporate culture of "we know better" can be perceived as arrogant. The resulting loss of confidence and trust translates into reduced financial and in-kind contributions, lowered volunteer support and diminished public trust.

Workplace giving: Challenges were also experienced in workplace giving and corporate matching gift programs. The unprecedented volume of donations generated in response to the 2005 hurricanes shed light on a very specific gift processing challenge: donor information from workplace giving campaigns, matching gift programs and third-party vendors was not consistently captured in the Red Cross donor database. Donations from these campaigns were often lump-sum donations with lists of thousands of employee names, gift amounts and fund designations that require relatively complex levels of data capture. Without business rules and standard operating procedures for handling these special and complex types of donations, individual donors tied to lump-sum donations were not always entered into the database and many individuals did not receive tax-receipts or acknowledgements in a timely manner.

Online donations: The Red Cross online donation system was unable to handle the unexpected and enormous amount of online donations in response to Hurricane Katrina; the high volume of gifts strained almost all fundraising systems, including those related to gift processing and acknowledgement and donor relations. An additional challenge during Katrina was the higher rate of fraudulent e-mails and "phishing" attacks. The Red Cross did implement HackerSafe, a product of ScanAlert (and an in-kind donation), to scan the Red Cross network and firewall for weak points and prevent hackers from entering the system, which helped considerably.

IV. Action—Strategy for Resolving Challenges

The Red Cross has been at the forefront of disaster relief since its founder, Clara Barton, led the fledgling charity's response to the Michigan forest fires of 1881. In the aftermath of Hurricane Katrina, the tradition-based organization now recognizes that it must foster changes to its culture and operations to meet the challenges of today—and tomorrow. To make lasting change, the Red Cross must promote and maintain stringent accountability throughout all levels of the organization. Its culture must understand instinctively the value of strengthening community partnerships and adopt a more risk-tolerant environment in doing so. In short, the Red Cross must learn from the past while not being bound by it.

With that in mind, the Red Cross is acting now to dramatically improve its operational and business capabilities and practices in order to serve the public with complete reliability during times of disaster. The organization has outlined several critical projects that will either be completed or underway by July 1, 2006. These projects are in three key areas:

1. Executing a plan of action to improve Red Cross operational and business capabilities.
2. Implementing vigorous internal controls to protect the organization against fraud, waste and abuse, while also providing improved accountability.
3. Creating a renewed and refreshed focus on serving communities and building partnerships.

Key Area I: Executing a plan of action to improve Red Cross business and operational capabilities.

The Red Cross is moving to implement a single, standardized financial and control system that will include its 800+ chapters as well as national headquarters and Biomedical Services. This system will be capable of efficiently collecting, reporting, analyzing and reconciling the financial data necessary to support the management of disaster operations for the entire Red Cross network. It will—

- Leverage a shared services center environment that enables chapters to—
 - Focus more time on service delivery and fundraising and less time on routine financial reporting. The shared services environment will relieve the burden on chapters to routinely report certain accounting, financial and audit-related information;
 - Process certain financial transactions more efficiently and effectively in a standardized and controlled environment (e.g., process accounts payable, contributions from donors and purchasing activity);
 - Reduce fiduciary risks to the chapters, the Red Cross, its partners and the American public.

(A successful model for this shared services center is already functioning for Red Cross Biomedical Services operations.)

- Improve internal controls via more accurate and consistent reporting, ensuring that during a catastrophic event, the Red Cross is able to both serve clients in a timely fashion and provide an important reporting system to meet its fiduciary responsibility to donors.
- Provide more timely access to financial information, giving management the ability to improve financial reporting, planning, budgeting and forecasting.
- Have one system of record for Client Assistance.
- Identify opportunities for cost reductions in administrative areas like finance and donations management so that a larger percentage of donor dollars can be spent on programs and services.

It is recognized that the development and integration of a single enterprise-wide financial and control system will take both time and a broad chapter involvement to implement.

The Red Cross will expand its capacity to meet the needs of disaster victims.

By July 2006, it will—

- Dramatically increase the stockpiling of supplies (food, cots, blankets, comfort kits, etc.) in key risk states, which will enable the Red Cross to serve one million meals and shelter 500,000 people per day in the initial days after a disaster strikes. This represents an additional investment of about \$80 million for supplies and will nearly triple Red Cross warehouse space around the country.
- Increase by one-third the capacity of the information hotline.
- Pre-stock one million client assistance debit cards.
- Pre-position emergency communications equipment (satellite phones, cell phones and radios) in 21 cities in nine coastal states.
- Devise enhancements to the Red Cross gift processing and acknowledgement system.
- Initiate contracts and agreements to increase feeding support through the utilization of prepackaged meals, such as self-heating “HeaterMeals,” and streamline its ordering systems.
- Increase the size of the Red Cross fleet of ERVs, enabling the organization to feed more people during major disasters.

The Red Cross will dramatically enhance its ability to recruit, train and retain volunteers. It will—

- Create an expanded portal to recruit spontaneous volunteers over the Internet, thereby enhancing its ability to manage expectations through targeted messaging and targeted recruitment.
- Identify and implement a Corporate Partnership Program designed to engage corporate employees as Red Cross volunteers who will be ready to respond during disasters. The ultimate goal at the end of one year will be 40 new corporate partners recruited with the ability to sustain these relationships over the long term.
- Increase the number of Community Relations staff in the DSHR System to provide the skills and cultural competency required during catastrophic events.
- Enhance the skill sets within the DSIIR with a cadre of 50-75 individuals who can deploy during disasters in the capacity of a community relations lead.

- Conduct a workshop in June 2006 to train these individuals.
- Provide updated guidance on spontaneous volunteer involvement and retention.
- Provide guidance on leveraging external volunteer relations partnerships—before, during and after disasters. Enhance relationships and protocols with national partner organizations such as the Points of Light Foundation and its Volunteer Center National Network.

The Red Cross will make significant strides in technology improvements for better client service and operational efficiencies. The key areas of focus are:

- **Client shelter data:** The Red Cross is creating, in partnership with FEMA, a National Shelter System (NSS) that will help the Red Cross and other humanitarian organizations track details about shelter locations, daily populations and availability status. The NSS system will be rolled out to Red Cross chapters and FEMA in the summer of 2006.
 - The NSS will be used during future disasters, both local and nationwide events, and all Red Cross-managed shelters will be required to provide existing data about their facilities and update the NSS system during disaster events. FEMA is responsible for adopting the system for non-Red Cross shelters.
 - When introduced, the system will include facility details, including shelter locations and daily population totals.
- **Family linking:** The Restoring Family Links effort will now be incorporated within the Welfare Information Service. The key component of this improved Welfare Information Service is the American Red Cross Safe and Well Internet site, which will be a part of Redcross.org. This Web site will be an easy-to-use mechanism that will serve the national and international public's need for family Welfare Information, consistent with the Red Cross focus on providing emergency assistance and relief to disaster victims. Those affected by a disaster will be encouraged to register themselves as "safe and well" on this Web site and to select and post appropriate messages. For those without Internet tools, a telephone-based alternative to register and search for welfare information will be provided. Concerned family members who know the individual's contact information will be able to search for and view "safe and well" messages posted by those who have registered worldwide. The Safe and Well Web site registry will comply with all privacy and child protection laws.

The Red Cross will adapt its service delivery model to meet the new requirements of disaster response. It will—

- Develop a dedicated staff of high-caliber Red Cross relief operation leaders who will strategically respond to large disasters and deploy as staff mentors on smaller operations.
- Provide the supplies, training and funding to empower churches and other local entities to shelter and feed disaster victims.
- Focus full-time personnel and sufficient resources on cultivating and supporting national partnerships.

- Teach and empower Red Cross chapters to develop enhanced local partnerships.
- On a pilot basis, implement this strategy in the two service areas that are most prone to disasters.

The Red Cross has enhanced its donations processing capacity and workplace giving and corporate matching gift programs. It has—

- Selected two caging and cashiering vendors to better handle Red Cross and donor needs related to mail volume, timely gift processing and data integrity.
- Partnered with MSN and Yahoo!, which have agreed to help support Red Cross donation collection efforts, and during times of disaster, to act as additional donation capacity providers. The Red Cross is also in promising talks with Google for equivalent donation capacity assistance, to be ready by the fall hurricane peak season.
- Evaluated capacity, technology and resource needs in order to adequately and efficiently process donations received through workplace giving, corporate matching gifts and third-party vendors. The goal is to accurately track these programs going forward in order to better determine total gift value from corporate partners, provide timely individual and corporate tax-receipts and acknowledgements and better steward these donors. The Red Cross will complete the process of revising the business rules and vendor protocol for handling workplace giving, corporate matching gifts and third-party vendor-facilitated donations by July 15, 2006.

Key Area II: Implementing vigorous internal controls to protect the organization against fraud, waste and abuse while providing improved accountability.

The Red Cross will foster a stronger culture of accountability and awareness vis-à-vis fraud and misappropriation.

As the American Red Cross Board of Governors and management have stressed throughout the post-Katrina evaluation of lessons learned, increasing the Red Cross capacity to respond to disasters cannot come at the expense of accountability. Red Cross donors, indeed the American public as a whole, understand that control weaknesses leave the Red Cross vulnerable to waste, or worse, fraud and related criminal wrong-doing. Accordingly, a top priority for the Red Cross is to address the control deficiencies identified during the Katrina/Rita/Wilma response before the hurricane season of 2006. It will—

- Implement a risk-based background check process for volunteers nationwide in order to better protect Red Cross assets and the safety of shelter residents.
- Encourage whistleblowers to bring forward allegations of potential fraud, waste, abuse and wrong-doing by enhancing awareness of the features of the Concern Connection hotline and by standardizing the training module that new volunteers and staff receive regarding how to access and use the hotline. The Red Cross also intends to hire an outside expert to conduct an assessment of the hotline, as it is now three years old.

- Develop a dedicated staff of high-caliber Red Cross relief operation leaders who will strategically respond to large disasters and deploy as staff mentors on smaller operations to strengthen the culture of accountability.
- Hire an internal chief auditor with a strong background in financial management, internal controls and business norms to fill the current vacancy. Develop and implement improved audit processes and procedures.
- To validate that systems are secured according to payment card industry standards, continue to engage third parties to provide regular independent assessments of the information security posture of the Red Cross's online donation system.

The Red Cross will devise and enact a series of measures designed to better control its casework and financial assistance. It will—

- Require all cases to be initiated in CAS and, for manual case records, have a system to back enter into CAS and to control paper documents to minimize the opportunity for duplicate assistance and detect and prevent fraud.
- Clarify and disseminate eligibility standards for financial assistance.
- Create and deploy a new staff unit dedicated to ensure that on-site controls are set up properly at the beginning of large operations. It will follow up with internal audit reviews in a timely manner to ensure that controls stick.
- Increase the control environment of the CAS:
 - Add verification and authentication features for client identification;
 - Require a unique, controlled login user name and password for each Red Cross caseworker;
 - Allow only one case number per Client Assistance Card number; and
 - Reduce the number of times any single debit card can be reloaded.
- Require supervisors to liberally review and sample caseworkers' files to audit the casework.
- Increase controls training for staff in charge of all Red Cross service centers and disaster operations centers of a certain size.
- Provide training to all chapters on the use of Client Assistance Cards and the appropriate controls.
- Place warnings on Red Cross signage and add language to casework scripts and intake sheets detailing the consequences of receiving unauthorized duplicate payments.

The Red Cross will enhance its business accountability practices to align itself with the best thinking in the business, nonprofit and government sectors. It will—

- By June 30, 2006, complete the Financial Management Task Force study, led by a major "Big Four" accounting firm and charged with assessing Red Cross financial management systems and processes.
- Build a "best-in-class" logistics/supply chain capability, designed in consultation with a leading corporate partner. Rather than ask outside expertise to help improve current Red Cross systems, the organization will formalize a partnership with a recognized leader in supply chain management to bring its systems to the Red Cross. The objective is to devise a logistics system that provides real-time information on

inventory and supplies, integrates with financial systems and ties directly to Red Cross vendors. The Red Cross will pursue process improvements in the current logistics system until this redesign can be implemented.

- Comprehensively review and upgrade warehousing operations and inventory control procedures.
- Reposition its business practices to avail itself of the best thinking in the business, nonprofit and government sectors. Outside thinking, particularly from corporate experts, will be used for scenario development, tabletop exercises and drills for continuous improvement. Technology partners will be asked to provide continuous improvements in client service and back-office efficiencies.

Logistics: The Red Cross will seek process improvements in its current logistics system, including:

- An intricate system of software applications has been developed to help manage all of the organization's assets on relief operations and to speed up vendor payments. The Red Cross is working to implement CAS and offer training throughout the chapter network.
- By July 1, four warehouse supervisors will be hired, as well as an additional national headquarters position titled "Project Manager, Logistics."
- The number of warehouses has doubled, and it is likely that warehouse space will triple.

Supply Chain: Beyond inventory control, the Red Cross has been addressing other supply-chain management issues such as:

- Inventories of feeding and sheltering equipment have increased.
- Contracts and agreements have been initiated to increase feeding support through the utilization of pre-packaged meals, such as Meals Ready To Eat (MREs) and self-heating meals, and to streamline our ordering systems.
- The size of the ERV fleet has been increased, enabling the organization to feed more people.
- The fleet of emergency communications response vehicles (ECRVs) has been increased to better serve the communication needs of workers.

Key Area III: Creating a renewed and refreshed focus on serving communities and building partnerships.

The Red Cross will fully serve the diverse community by more aggressively partnering with the faith-based community, civic organizations and special interest groups to support a more inclusive model of community-based disaster response. It will—

Shift its current partner services strategy to a new model that *integrates partner groups directly into service delivery*. Before, the organization had been in the business of standing up *Red Cross shelters* and delivering *Red Cross meals*. In other words, it employed a "Red Cross-centric" response. The lessons of Katrina and Rita, however,

have highlighted that, particularly during major disasters in underserved locations, the charity must do a better job of giving communities the tools, in advance, to become service delivery providers.

Make Red Cross the organization that maximizes the community's ability to feed, shelter and meet the emergency needs of those affected by disaster. In this new model, the Red Cross will provide the supplies, equipment, training and funding to allow partner agencies to be prepared to shelter and feed disaster victims while adhering to established standards of care and stewardship. Most importantly, the Red Cross will not necessarily manage these community operations.

The key element to this strategy is to add value to the efforts of its partners. The Red Cross has concluded that it will be more effective at adding such value once it understands that the first priority of its partners is in serving their community, not serving the Red Cross as an end in itself. In other words, partnership does not mean assisting the Red Cross in its mission; it means helping others in a shared mission to the community.

Specific partners will be identified by Red Cross chapters to become part of the response community, with the specific intentions of building community response capacity and serving the diverse community. Trained Red Cross disaster workers, trained community partners and spontaneous volunteers will comprise the ideal work force. The new service delivery model will allow the Red Cross to aggressively resource others in the community to supplement its own efforts.

One of the striking advantages of this service delivery model is that it addresses some of the concerns expressed by minority groups during Katrina (e.g., the Red Cross workforce is not sufficiently diverse and Red Cross service delivery is not always culturally appropriate). Partnering with local churches and special interest groups to operate their own community shelters should encourage more individuals from minority populations to seek shelter where they believe that those individuals operating the shelter speak the same language and understand their particular needs. To enhance our ability to create a successful community-based response model, the Red Cross is redesigning training materials and content for specific use with partner agencies. The organization also intends to expand the use of foreign language-specific materials for training and service delivery.

Under this new model, the Red Cross will commit to pay some or all of the expenses of others and accept certain risks associated with the partner's service. It will use basic written agreements, entered into *before* the catastrophe to the maximum extent possible, to ensure an adequate community mass care response. This aspect of the service delivery model (i.e., paying certain expenses of our partners and accepting some of their risks in delivering service) is being developed in such a way as to mitigate any inherent financial and reputation risks attendant in this new strategy. This model of service delivery has been employed by several chapters with great success. In the wake of Katrina, the Red Cross has concluded that this partnership approach must form the foundation of its new business model for all future disasters.

The Red Cross will build the foundation for this new community-based disaster response model by—

- Training and empowering Red Cross chapters to develop enhanced *local* partnerships with entities that wish to be service delivery providers during major disasters.
- Developing basic written agreements that will establish roles, responsibilities and the general parameters for service delivery for local entities that wish to be service providers during major disasters. The first of these documents and guidance on strategic partnering selection have already been released.

The Red Cross will become an excellent government partner, solidifying its role at the federal level and building organizational capacity to partner with state emergency management in at-risk states. It will—

- Hire Red Cross employees in key-risk states to work with state emergency management as part of the service area structure to better prepare at-risk communities for disasters. In addition to working closely with state emergency management, these positions will also build and foster relationships with local government leaders and other nonprofit and faith-based partners in the community. Solidifying these relationships will assist the Red Cross in identifying appropriate shelter locations and any special needs in the community (e.g., the need for translators in shelters because of a large concentration of a particular ethnic group). Importantly, this will allow the Red Cross to marshal the appropriate resources to address these special needs in advance of a disaster.
- Work with appropriate federal agencies to clarify roles and expectations. It will pay particular attention to the federal government's expectations regarding the Red Cross role assigned under the National Response Plan (NRP) to be the primary agency for coordinating federal mass care resources to support overwhelmed state and local government entities. The Red Cross will also work to establish appropriate public expectations of the organization under the NRP.
- Create a nationwide shelter database with FEMA, for use by the states by July 1, 2006.

The Red Cross will leverage its relationships with a variety of groups that advocate on behalf of minority populations to better serve those populations in the future. It will also more effectively recruit volunteers from those populations to become disaster relief workers. It is currently—

- Working with the NAACP to train future disaster relief workers. The Red Cross has also identified meaningful opportunities for the NAACP to partner with Red Cross in post-Katrina recovery efforts along the Gulf Coast.
- Working with several major groups that represent individuals with disabilities to better understand their special needs and identify more effective training and other ways to accommodate those needs during a disaster, particularly in Red Cross shelters.
- Working with the American Translators Association to ensure that the adequate foreign-language capability exists within shelters as they are stood up for operation.

- Building upon the Greater Houston Area Chapter and Healing Hands Coalition's faith based model for developing a network of well-trained disaster volunteers within the African-American community who can quickly mobilize and respond to disasters.

The Red Cross will better manage and leverage its relationships with corporate and foundation partners. It will—

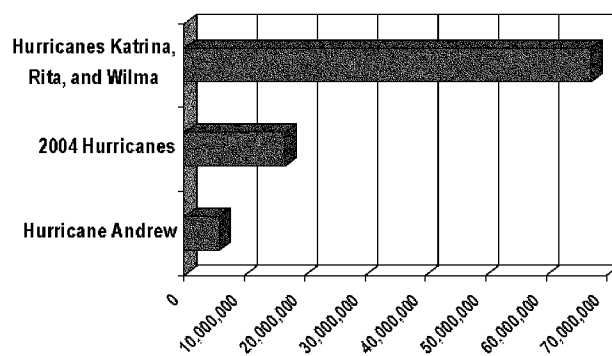
- Establish a National Corporate Advisory Council, which will provide open communication and a relationship-building vehicle for corporations with the Red Cross, while providing the Red Cross with a better understanding of the needs, issues and challenges of our corporate partners. The council will provide input on all Red Cross programs, while also helping to increase information about our work with peer companies, their employees and the communities they serve.
- Create an Office of Strategic Partnerships, which will enable the Red Cross to work more effectively with corporate partners during times of catastrophic disasters by creating seamless coordination across the organization to help match our needs with corporate resources, and vice-versa.
- Enhance the in-kind donations tracking system and integrate in-kind offers into the design of a best-in-class logistics/supply chain system.

V. Conclusion

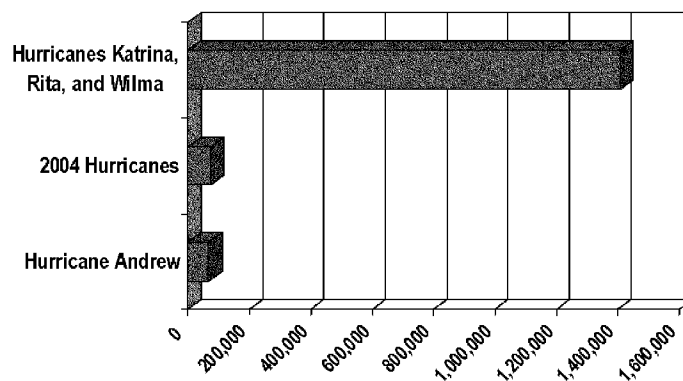
This paper describes the actions undertaken by the American Red Cross to address the system weaknesses exposed by the historic hurricanes of 2005. Even as it takes these steps, the organization is embarking on strategic changes that will more broadly build upon these tactical improvements. It is seeking to make better use of its technology investment. The Red Cross is also developing a platform to reduce the time its operating units spend on internal administrative functions. The resulting efficiencies will enable Red Cross workers to devote more time to mission-related services. Most important, the Red Cross is changing the structure of its chapter network to expand its presence in communities nationwide that have lost Red Cross services in recent years. Collectively, these efforts will bring the 125-year old charity closer to the people it is chartered to serve, ensure more effective service delivery and provide greater accountability.

VI. Appendices

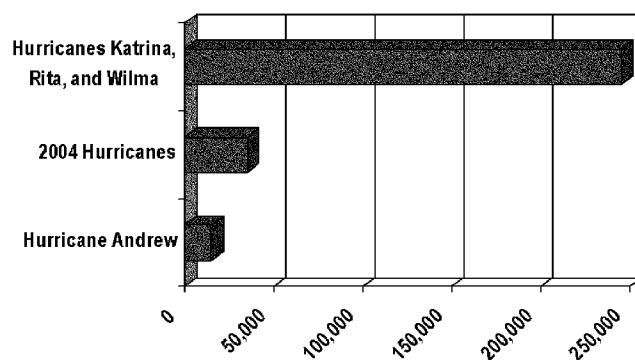
Meals and Snacks



Family Assistance Cases Opened



Red Cross Workers



Unprecedented Scale

	Hurricane Andrew	2004 Hurricanes	Hurricanes Katrina, Rita and Wilma
Overnight stays in shelters	N/A	519,000	3,838,415
Meals and snacks served	5,672,303	16,642,370	68,014,038
Family assistance cases opened	68,252	73,779	1,407,075
Total workers	14,788	34,771	244,980
Total cost	\$81,000,000	\$127,800,000	\$2,116,000,000*

Ambassador MCELVEEN-HUNTER. Thank you. These lessons learned have led to an investment of \$125 million to improve our disaster response infrastructure. Some of those improvements Congressman Scott has mentioned with the repositioning of warehousing and tripling the warehousing space needed for early response.

We have enhanced our logistic support and made substantial technological improvements. We have reached out to become better partners with numerous nonprofits and governmental organizations involved in disaster preparedness and response.

We are committed to being better prepared for challenges that may lie ahead. Simultaneously the board embarked on a critical and comprehensive assessment of ourselves and our 60-year-old governance structure and practices.

I have a confession to make that when I joined the board and was told that there were 50 members of the board, my response was, well, we need to fix that right away. The response back was that unless you plan on spending your entire term on Capital Hill, it requires an act of Congress. Well, that is what we are doing here today.

Our goal, Mr. Chairman, and members of the committee, was not simply to look at governance reform, but to become the governance gold standard, and to lead by example in the not for profit arena.

During this deep dive review the board's governance committee called upon an independent governance advisory panel made up of some of the country's most prominent governance authorities, to include my partner, Karen Hastie Williams, Peter Clapman, Professor Charles Elson, Margaret Foran, Professor Jay Lorsch, Patricia McGuire, and Professor Paul Neuhauser, to carefully examine current Red Cross governance and to provide examples of current best practices in both the for profit and not for profit communities.

This 6-month-long governance review involved more than a hundred interviews of nonprofit and for profit sector governance leaders, scholars, government officials, past and present, Red Cross board members, and officers, management, volunteer chapter leaders, donors, and others who have observed and worked with the Red Cross.

I am proud to report the board is not only supportive of this governance reform, but perhaps the most important accomplishment was that our board unanimously, and I repeat, unanimously, approved the changes which will ensure our governance practices are able to support the Red Cross mission today and in the years to come.

In a 156 page report, entitled, "American Red Cross Governance for the Twenty-First Century: A Report of the Board of Governors," the board spells out its recommendations and the reasons behind them. I have attached a copy of the report which I respectfully request be included in the record.

Mr. DELAHUNT. Without objection.

[The information referred to is not reprinted here but is available in committee records.]

Ambassador MCELVEEN-HUNTER. Thank you. These recommendations incorporate some of the best practices in corporate

and nonprofit governance. In short, the legislation we recommend to Congress would produce the following transformational changes.

This, by the way, is the 156 page night time reading on governance reform, but I am happy to report that this product is actually being disseminated to other not for profits and is being used by the Yale Business School on not for profit best practice governance.

So we are proud of the product that has been produced and of the committee, the independent committee's, work. Let me quickly go over the recommendations of that independent audit council. The current charter requires a 50 person board. The legislative recommendation reduces the size of the board to 12 to 25 members by 2009, and 12 to 20 members by 2012.

We have requested a simplified board structure. The current charter provides three different groups of members of the board. We are asking for a streamlined process which consists of one nomination committee to consider all potential members to the board.

The Presidential appointees. Currently the charter provides that the President appoint eight members to the board, seven of whom are governmental officials. We are recommending a cabinet advisory council in lieu of those appointments, composed of 8 to 10 principal officers of executive departments and senior officers of the armed forces, appointed by the President to provide the board with critical governmental input and support.

Under the legislative recommendation the President would continue to appointment the chairman of the board as nominated and approved by the full Board of Governors.

On governance and oversight board rule, the current charter gives the board all powers of governing and managing the Red Cross. The legislative recommendation clarifies that the board will focus specifically on governance and strategic oversight and not management.

On the ombudsman, the current charter does not provide for a Red Cross ombudsman, but the legislative recommendation establishes an office of the ombudsman that has unfettered access throughout the Red Cross and reports annually to Congress, which addresses one of the questions presented by Congresswoman Ros-Lehtinen.

After an exhaustive process, I am convinced that these changes to the American Red Cross charter will improve the organization's governance structure and practices, and enhance the organization's overall accountability and transparency to the American people.

Because we believe these changes are vital to our organization's best interests and performance, we ask for your support that is necessary to make these legislative changes so that we may implement them as soon as possible.

We are happy to announce that S-655, as of last night, the bill has passed the Senate as an amendment to the 9/11 bill, and we appreciate the support that has been necessary to accomplish that as well.

For more than 125 years the American Red Cross has been America's partner in prevention of, preparedness for, and response to disasters. We are an American institution, rich in the history and tradition of this nation, and we aspire continually to improve ourselves.

We owe this to the American people, who so generously give of their time, of their talents, their treasures, and perhaps most importantly, their trust in this organization.

Finally, let me say how grateful I am to the entire Board of Governors for their leadership and their commitment, and their courage to move forward with this legislation and this recommendation.

The actions recommended by the board complement efforts already underway to improve our response capability, our chapter structure, and administrative infrastructure. We are committed to working in partnership with all of our stakeholders, because only together can we become the Red Cross the American people expect and richly deserve.

I would like to personally thank all of you on behalf of the board, management, and our volunteers, for taking the time to listen and to address this critical issue to the American Red Cross. We are asking today for legislation to amend the American Red Cross Congressional Charter and appreciate your support.

I would like to also just take a moment to publicly thank Karen Hastie Williams. I think one of the extraordinary aspects of America is its commitment, first of all, to a can do attitude, and secondly to the commitment of volunteers.

Karen Hastie Williams was essentially elected by the members of the independent panel to be its chairman, and to represent them. I am sure that she had no idea that this representation would become an almost full-time job, but I think that it is quite extraordinary and perhaps is a tribute to this great organization, that someone of the great ability and esteem of a Karen Hastie Williams has pro bono given her time to the American Red Cross and our governance transformation.

So I would like to just on behalf of the board and our volunteers, and our employees, Karen, have an opportunity to thank you publicly.

[The prepared statement of Ms. McElveen-Hunter follows:]

PREPARED STATEMENT OF THE HONORABLE BONNIE MCELVEEN-HUNTER,
CHAIRWOMAN, AMERICAN RED CROSS

Chairman Lantos, Congresswoman Ros-Lehtinen, Members of the Committee, I am a grateful American, a business owner, a former "citizen" Ambassador and proudly a volunteer . . . as Chairman of the Board of the American Red Cross . . . for the greatest humanitarian organization in the world. An organization that reaches out to the *least*, the *last* and the *lost* at their most critical hour of need. An organization guided by Congressional Charter and supported by the generosity of the American people. An organization of 35,000 employees and almost one million volunteers.

An organization that is not always perfect . . . but where I have personally witnessed the power of our work across the street and around the globe. I have witnessed our work in shelters along the Gulf Coast following the devastation of Katrina, Rita and Wilma. I have witnessed the power of our work in Darfur refugees camps in Chad, Africa. I have witnessed our work in the rebuilding of homes and lives following the devastation of the tsunami. I have witnessed our work as we have saved the life of a child undergoing chemotherapy with lifesaving blood.

In October 2004, I was nominated and selected by the Red Cross Board's Search Committee and I assumed my mission as Chairman. From August through September, 2004, Hurricanes Charlie, Frances, Ivan and Jeanne hit Florida and required the largest response for the American Red Cross to a natural disaster in our 124 year history *at that time*.

Two months later, in December 2004, a tsunami with the energy of 23,000 Hiroshima bombs hit Southeast Asia. And less than a year later, in August 2005, Hurri-

canes Katrina, Rita and Wilma devastated the Gulf Coast which produced the largest disaster response in the American Red Cross's 125 year history.

Shortly after our immediate response to Katrina and while still helping hundreds of thousands of survivors, the Red Cross initiated a top-to-bottom review of our operational response capabilities and a critical analysis of our performance. I have attached a copy of the report *Challenge to Action* which I respectfully request be included in the record. These "lessons learned" have led to an investment of \$125 million to improve our disaster response infrastructure. We have tripled our warehouse space, enhanced our logistical support and made substantial technological improvements. We have reached out to become better partners with numerous non-profits and governmental organizations involved in disaster preparedness and response. We are committed to being better prepared for the challenges that may lie ahead.

Simultaneously, the Board embarked on a critical and comprehensive assessment of ourselves and our 60 year old governance structure and practices. I must confess that when I joined this Board in October of 2004 and was told there were 50 Board members, the first thing that I said was, "we need to fix that right away." I was told that it could not be fixed unless I spent my entire tenure seeking an Act of Congress. That is what we are doing today.

Our goal Mr. Chairman, Members of the Committee, was not to simply look at governance reform but to become the governance "gold standard" and to lead by example in the not-for-profit arena. During this "deep-dive" review, the Board's Governance Committee called upon an Independent Governance Advisory Panel, made up of some of this country's most prominent governance authorities, to include: Karen Hastie Williams, Peter Clapman, Professor Charles Elson, Margaret Foran, Professor Jay Lorsch, Patricia McGuire, and Professor Paul Neuhauser to carefully examine current Red Cross governance and to provide examples of current "best practices" in both the for-profit and non-profit communities. This six-month long governance review involved more than 100 interviews of non-profit and for-profit sector governance leaders, scholars, government officials, past and present Red Cross board members and officers, management, volunteer chapter leaders, donors and others who have observed and worked with the Red Cross.

I am proud to report the Board is not only supportive of this governance reform but *unanimously* approved a series of changes which will ensure our governance practices are able to support the Red Cross mission today and in the years to come. In a 156 page report entitled, *American Red Cross Governance for the 21st Century: A Report of the Board of Governors*, the Board spells out its recommendations and the reasons behind them. I have attached a copy of the report which I respectfully request be included in the record. These recommendations incorporate some of the best governance practices in corporate and nonprofit communities. In short, the legislation we recommend to Congress would produce the following transformational changes:

- *Reduced Board Size*—The current charter requires a 50 person board. The legislative recommendation reduces the size of the board to (i) 12–25 members by 2009 and (ii) 12–20 members by 2012.
- *Simplified Board Structure*—The current charter provides for three categories of board members. The legislative recommendation streamlines the membership to one category of board members selected through board nominating process, approved by the full board and elected by delegates to the Red Cross annual meeting.
- *Presidential Appointees*—The current charter provides that the President appoints eight members to the board, seven of whom are governmental officials. The legislative recommendation establishes a Cabinet Advisory Council, composed of eight to ten principal officers of executive departments and senior officers of the Armed Forces appointed by the President, to provide the Board with critical governmental input and support. Under the legislative recommendation, the President continues to appoint the Chairman of the Board as nominated and approved by the full Board.
- *Governance and Oversight Board Role*—The current charter gives the Board all powers of governing and managing the Red Cross. The legislative recommendation clarifies that the Board will focus solely on governance, strategic oversight and direction of the Red Cross.
- *Ombudsman*—The current charter does not provide for a Red Cross Ombudsman. The legislative recommendation establishes an Office of the Ombudsman that has unfettered access throughout the Red Cross and reports annually to Congress.

After an exhaustive process, I am convinced that these changes to the American Red Cross charter will improve the organization's governance structure and practices and enhance the organization's overall accountability and transparency to the American people. Because we believe these changes are vital and in the organization's best interest, we ask for your support for the necessary legislative changes so we may implement them as soon as possible.

For more than 125 years, the American Red Cross has been America's partner in prevention of, preparedness for, and response to disasters. We are an American institution, rich in the history and tradition of this nation, and we aspire to continually improve ourselves. We owe this to the American people who so generously give of their time, talents, and trust—and we owe it to those who rely on us in their greatest hour of need.

Finally, let me say how grateful I am to the entire Board of Governors for their leadership and commitment. The actions recommended by the Board complement efforts already underway to improve our response capability, chapter structure and administrative infrastructure. We are committed to working in partnership with all our stakeholders because only together can we become the Red Cross the American people expect and richly deserve.

I would like to personally thank you on behalf of the Board of Governors, management and our volunteers for taking the time to address this critical issue to the Red Cross. We are asking today for legislation to amend the American Red Cross Congressional Charter. I am happy now to answer any questions you may have.

Mr. DELAHUNT. Madam Ambassador, thank you for your testimony. Thank you for your leadership. Thank you for your initiative. We in Congress are very familiar with less than perfect institutions, and we also join with you in applauding the work of our next witness, Mrs. Williams.

Ambassador MCELVEEN-HUNTER. Thank you, sir.

Mr. DELAHUNT. Mrs. Williams.

**STATEMENT OF KAREN HASTIE WILLIAMS, J.D., PARTNER
[RETIRED], CROWELL AND MORING, LLP**

Ms. WILLIAMS. Thank you very much, Congressman. Thank you for the opportunity to be here today, and to discuss the work of the independent governance advisory panel. As the Ambassador said, we were charged with looking at the current practices of the Red Cross, and asked to recommend reforms to the processes and procedures to better reflect the best practices found today in both the for profit world and the non-profit world.

My six colleagues whom the Ambassador identified worked with me diligently over a period of 6 months in many meetings to help produce the report that has been made a part of the record.

I think that we all took this assignment because of the importance of the Red Cross to the American public and to the world, because of course it is an international organization, and has relationships with Red Cross entities across the map.

I believe that the committee in looking at the recommendations may want to think of it as essentially a road map for the Red Cross, as well as for other large non-profit organizations, to revise, update, and reform their governance practices.

We recognize, however, that the Red Cross is unique in its standing as an organization with a Federal charter. I would like to in my time just briefly highlight the key features of our report that I think are critical and indeed that the Red Cross has embraced and are currently found in pending legislation.

The academic literature, as well as all of the experience in the corporate world, is unanimous in recognizing the importance of small boards. This is important so that all of the participants can

be engaged and more actively involved in establishing policies and practices that the officers and managers can then follow.

The action to reduce the size of the board is a needed first step. It will require amendments to the charter. I know that I speak for my colleagues in saying that we are very pleased that the Senate has acted, and we look forward to action in the House to approve these charter amendments.

In reducing the size of the board, we believe that it will be a more cohesive organization. It will be a more nimble organization to be able to respond to issues as they arise, with participation by all of the active members.

Given the unique and quasi-governmental nature of the Red Cross, we think it is appropriate for the chair of the organization to be nominated by the President of the United States on recommendations from the Red Cross board.

The establishment of the two leadership councils was an approach that we felt served all parties. It reduced the size of the board, but at the same time retained the availability for advice and consultation from key Federal and chapter representatives.

The Presidentially-appointed cabinet council of 8 to 10 officials from key U.S. Government departments and agencies, with several members from the Armed Forces, would take the place of the current director appointments by the President.

We believe that this is an important step that should be included in the legislation. With the bylaw change the Red Cross is able to provide a national leadership council which will substitute for the chapters and the blood service regions having named members on the board.

Again, it will be a consultative process, and it will be a way of developing ideas that can then be presented to and move forward by the board. Another important recommendation in our report was for the president and CEO to be a person of stature and broad experience, so that he or she could manage all parts of the Red Cross organization.

The president would be appointed by the Red Cross board on nomination from the governance committee. We believe that this process is consistent with accepted corporate governance and non-profit governance practices.

I think it is important once the new president is sworn in that he or she will become quickly the spokesperson for the Red Cross, and will coordinate activities among the various elements of the Red Cross.

Although it is not the current situation our report recommends that the president and CEO be head of the organization from both a management and an operations perspective, and to clear up ambiguity that exists now in the charter language.

This will allow him or her to get to know key volunteers and employees both at headquarters and in the field, and be able to address issues that come up on a daily basis. It will also provide an opportunity for the board members on various committees to work with the new president, and develop strategic plans to build the next generation of Red Cross volunteers.

While there are numerous other recommendations in our report, I believe that they all follow naturally from organizational change.

In the chairman's letter requesting my participation today, he posed several questions that I would like to answer just briefly for the record.

The first question was: To what extent do you agree with the governance recommendations? I support the recommendations 100 percent. There is clearly a need for greater audit analysis of reports coming into headquarters and the audit committee of the Red Cross is committed to doing that.

We believe by centralizing the financial review process the Red Cross can develop standard forms and procedures that will be used by all chapters and blood regions, and will facilitate the aggregation of financial information at the regional centers and ultimately at headquarters here in Washington.

The second question: How will such recommendations improve the organization? Consistent treatment of like situations will make the Red Cross practices more transparent and provide a greater accountability for each reporting unit. With clear lines of communication and responsibility, we believe that the response to crisis situations will be greatly improved.

The third question was: What reforms are additionally necessary to improve the board of governor's governance in oversight functions, as well as management functions of the organization?

It will be necessary for the board to continue reducing the number of board members until they are in the 12 to 20 range. The smaller board, the more comprehensive group, and also they are more likely to understand their role as policymakers, and not as direct managers.

With the checks and balances that are included in the proposed legislation the opportunity for oversight by the Congress to assure that statutory responsibilities are followed is very clear. The most significant charter changes recommended by the panel certainly are included in the legislation that passed the Senate yesterday.

We believe that by eliminating the three separate classes of board members that there will be a single class of directors. With equal footing, these directors will have no impediments to working together for the benefit of the Red Cross, American citizens, and our international partners.

Thank you very much, Mr. Chairman, for the opportunity to participate in this hearing, and I will be happy to respond to any additional questions you may have.

[The prepared statement of Ms. Williams follows:]

PREPARED STATEMENT OF KAREN HASTIE WILLIAMS, J.D., PARTNER [RETIRED],
CROWELL AND MORING, LLP

Thank you, Mr. Chairman. I am pleased to participate in today's hearing and to present testimony on the recent governance review process undertaken by the American Red Cross. The charge to the Independent Governance Advisory Panel was to examine the current practices of the Red Cross and recommend reforms to its processes and procedures to better reflect the best practices found today in both for-profit and non-profit organizations.

First, let me thank my six colleagues, Peter Clapman, Charles Elson, Margaret Foran, Jay Lorsch, Pat McGuire, and Paul Neuhauser, for their strong support in this project. All worked diligently over the many months of our review to understand the current processes and procedures followed by the Red Cross today and to make constructive suggestions as to what changes would be recommended to improve the management and operations of the Red Cross—both in times of crisis and disaster as well as in their normal activities.

I believe that the committee has received copies of our panel's final report, and I would request that it be made a part of the record of this hearing. This report provides an excellent roadmap for the American Red Cross and other large non-profit organizations to revise, update and reform their current governance practices, recognizing, however, that the Red Cross has a unique standing in light of its Federal charter.

In my brief time I would like to highlight key features of the panel's report which I believe will serve well both the Red Cross and the American public. The academic literature as well as that from the corporate world is unanimous in requiring smaller sized boards that are more engaged and more actively involved in establishing policies and practices that the officers and managers can follow. The action to reduce its size is a much needed first step. It will require amendments to the Charter to reduce the number of members to no more than 20 by March 2012, to reflect a single category of elected members, all of whom (except the Chair) would be nominated through a board nomination process and elected at the annual meeting to serve staggered three-year terms. Given the unique quasi-governmental nature of the Red Cross, the panel agrees that it is appropriate that the Chair continue to be nominated by the President of the United States on recommendations from the Red Cross Board. Establishment of two leadership councils will serve to further reduce the size of the board, yet retain the availability of advice from Federal and chapter representatives. A Presidentially-appointed Cabinet Council of 8-10 officials from key U.S. governmental departments and agencies, with 1-3 members from the Armed Forces would take the place of current director appointments of government officials who do not regularly participate in the ARC meetings or occasionally send a staff person. With a by-law change a National Leadership Council would be created to facilitate communications between the ARC and its chapters and blood service regions. The Council members would be expected to work in communities and focus on areas such as audit, governance, blood services, and disaster relief.

Another important recommendation is for the President and CEO to be a person of stature and experience so that he or she can manage all the parts of the organization. The President would be appointed by the Red Cross Board on nomination from the Governance Committee and approval by the Board. Once sworn in, the President will need to quickly get to know his personnel and significant issues at headquarters and in the field. For the credibility of the President he must be the principal spokesperson for the Red Cross inside and outside the headquarters building. Although that is not the current situation, our recommendation is that the President and CEO be head of the organization from both a management and operations perspective. This will allow him/her to get to know the key volunteers and employees both at headquarters and in the field who work with issues on a daily basis. It will also provide an opportunity to work with the board members on strategic plans to build the next generation of Red Cross volunteers. While there are numerous other recommendations in our report, I believe that they will follow naturally once the organizational changes are made.

In response to your specific questions, Mr. Chairman, I would reply as follows:

(1) To what extent do you agree with the governance recommendations?

I support the recommendations 100%. There is clearly a need for greater audit analysis of reports coming into headquarters. By centralizing the review process, the Red Cross can develop standard forms and procedures that will be used by all chapters and blood regions and will facilitate the aggregation of information at the regional centers and ultimately at headquarters.

(2) How will such recommendations improve the organization? Consistent treatment of like situations will make the Red Cross practices more transparent and provide a greater accountability for each reporting unit. With clear lines of communication and responsibility response to crisis situations will be greatly improved.

(3) What reforms are additionally necessary to improve the Board of Governor's governance and oversight functions as well as the management functions of the organization?

It will be necessary for the Board to continue reducing the number of Board Members until they are in the 12-20 range. The smaller the Board, the more cohesive the group and also the more likely to understand their role as policy makers and not managers. With the checks and balances included in the legislation the opportunity for oversight by the Congress to assure that the statutory responsibilities are followed.

The most significant charter changes recommended by the Panel are included in the current version of a draft bill approved by the Senate Finance Committee last week. By eliminating the three classes of Board Members, there will be a single class of directors. With equal footing these directors will have no impediments to

working together for the benefit of the Red Cross, American citizens and our international partners.

Thank you, Mr. Chairman, for the opportunity to participate in this hearing. I will be happy to respond to any additional questions that you may have.

Mr. DELAHUNT. Well, thank you, Mrs. Williams for your testimony, and for being the quintessential volunteer. I can appreciate the investment of time and commitment that you have made this effort. You both are to be congratulated.

I would note, Ambassador, that you took great pride, and it is unusual to have 150 recommendations unanimously approved. I think that reflects considerable talent.

Ambassador MCELVEEN-HUNTER. It may be more impressive than my entire term as an Ambassador.

Mr. DELAHUNT. I only have a few questions. Could you describe for us, and I would direct this to either one of the witnesses, how does the current government structure impact either negatively or in a positive way the ability of the American Red Cross to manage and carry out its functions, and why was it clear that there was a need for change of the existing structure? Ambassador.

Ambassador MCELVEEN-HUNTER. Mr. Chairman, I think that we all recognize that a smaller board—if you look at the for profit arena—and I think not for profits also have to hold themselves up to the same kind of scrutiny that for profits do is more efficient and effective.

We saw an opportunity frankly as a result of Katrina when we were questioned as an organization and we did an analysis not only of our lessons learned from an operational standpoint, but I think we as a board recognized that we couldn't look at the organization without also looking at ourselves with the same critical analysis.

Realistically, we had never believed that we had the opportunity or had committed the energy to go to Congress to get the charter changed. So, I think that the difference here is that Katrina gave us a door. We seized that opportunity.

I think we are a better organization today operationally. I think we are also a better organization today assuming that this legislation is approved with the modifications to our board.

And I think Karen Hastie Williams made a very critical point. Let us face it. When you have 50 individuals to communicate with, and part of a critical responsibility of a CEO and a board is communication and clarity. I think those areas will be much better defined.

If you are asking if the governance change would have had an impact on the operational issues of Katrina, I would have to say to you no. But because the issues there were on the ground issues, if there was a failure there, the failure was actually a failure to imagine the scope and scale of that event.

However, let me say to you that the proposed changes in our governance have created an opportunity, and we now can see a dotted line to greater interest in the position of CEO of this organization.

So is there a direct relationship? Absolutely. And I think the benefit will be that this board will be a governance board, which by our charter previously, we were instructed to be a governance and management board. That is part of our charter.

In this new day, we will have the opportunity to focus on what boards need to focus on, and that is strategic oversight and governance.

Mr. DELAHUNT. Thank you, Ambassador. Mrs. Williams.

Ms. WILLIAMS. If I might just add a comment, Mr. Delahunt. I have the privilege of serving on three corporate governance committees, and of all of those boards the largest one of them is 15 members.

Fifty people on a board winds up with factions being developed, and it is very hard to reach a consensus. With 12 to 20 people that is a manageable number of people. Everyone can sit at the table. Everyone makes an effort to be at the meetings because they know that his or her participation is important, and that cohesiveness is critical.

It is critical in the day to day governance process, but certainly during a time of crisis it is even more important. So I think size really does have a substantive impact.

Mr. DELAHUNT. Well, again, thank you, and to use the metaphor, there appears to be a silver lining in every cloud, and I applaud both of you and the organization for taking advantage of that opportunity that was presented by the disaster that we know as Katrina.

And with that, I will recognize the ranking member of the full committee, the gentlelady from Florida, Ms. Ros-Lehtinen.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Chairman. I thank my friend from Massachusetts for yielding me the time, and welcome panelists to our hearing. I wanted to get your insights on what the great efforts of the American Red Cross in getting Magen David Adom, MDA, the Israeli Red Cross society equivalent, finally officially getting accepted in the Red Cross/Red Crescent movement.

As you know this has been an ongoing struggle. After 50 years of being excluded, last summer finally MDA was accepted. I wanted to ask you what your role was in facilitating this process which was so important to many of us.

I know that Congressman Engle, and Congressman Ackerman, Chairman Lantos, so many of us worked hard on this project. If you could comment.

Ambassador MCELVEEN-HUNTER. Well, thank you very much. I think that you don't want to hear the details of the story, although some day I hope I have the opportunity to share them with you, because there was a late night call on a Sunday evening after Thanksgiving from the president of Magen David Adom reaching out to me and to the Red Cross, because the program and the memorandum of understanding was actually not going to go through.

And as a result of a lot of diplomacy and telephone calls urgently for 3 or 4 hours, we were able to make sure that a memorandum of understanding was actually on Prime Minister Sharon's desk at 5:30 a.m. one morning, that morning, to be signed, and he had actually the political courage to make that decision.

The Magen David Adom is actually a 58-year wrong that has finally been righted. I think this board and the American Red Cross for those 58 years was unyielding on this issue.

But because of circumstances, and I also think the power of relationships, it came before us and we were able to move it through this year. I can remember someone saying it is not going to happen, and my response was it is not going "to not" happen on my term.

So this has been an opportunity for us to welcome Magen David Adom into the international federation. We had 183 member countries. This added a 184th, but I think what is also critical for the committee to know is that at the time that we welcomed MDA as it is referred to in Israel, that we also welcomed the Palestinian Red Crescent Society.

This is the first organization that the Palestinians have joined that is an international organization, and I had the privilege of seeing the president of the Palestinian Red Crescent Society in the vote in Geneva on the floor of the Congress vote against his government.

He voted against his own government's position by voting to admit Magen David Adom and its own society. Now that is political courage. I think that is an indication of the level of commitment to humanitarian issues that we see in the leadership of the Red Cross and Red Crescent Society.

But I am delighted that we were able to accomplish that. Now, of course, there are responsibilities by both groups to continue to live up to the memorandum of understanding. But thank you very much, Congresswoman.

Ms. ROS-LEHTINEN. Thank you, and if the chairman would allow me another question. Thank you. Internal corruption and fraud, payments of fraudulent claims, these are issues that residents of Florida hear about all the time because as you pointed out in your testimony. We had a terrible disaster season, hurricane season and tropical storm season. Not this year, but the year before. It was just devastating. This year it was the tornadoes' turn at Florida.

But what actions has the American Red Cross taken to prevent this fraudulent use of your organization to prevent this internal corruption that might be taking place, and fraud, and the people who are filing fraudulent claims. Do you have an information line? Do you have brochures to give to people?

What further measures are necessary to make sure that we can prevent this waste, fraud, and abuse, and what governance reforms might you take on to assist in these efforts?

Ambassador McELVEEN-HUNTER. First of all, let me say that every dollar that is donated by the American public is a dollar that is taken extraordinarily seriously by the American Red Cross.

After all, 98 percent of our resources come from the American people, and as I mentioned in my opening statement all we really have with the American people is trust. So, in the area of fraud, we take seriously far smaller amounts that many organizations frankly would overlook, because the cost of going after and prosecuting those individuals is very expensive.

But the reality is that the American Red Cross has a zero tolerance for fraud and abuse of the dollars that are given out of generosity and the responsibility of our own stewardship. I think one of the things if we have ever erred, we have erred on the side of giving to our victims, we have sometimes said that we may not

have all the processes in place, but it is important to meet the needs of the individuals.

So there are cases where perhaps we didn't go through the entire process because of circumstances, but felt the need to serve the public was greater at that moment than the detailed clarification and the subsequent work.

We do believe in stewardship, and I think it is important to compare the fraud in the American Red Cross, and let us take Katrina, versus in normal corporate industry. We had a 1/2 of 1 percent of the dollars that were taken in for Katrina, and that is a pretty significant number, 4 million clients, that were considered fraudulent, and we are pursuing those.

For an industry standard in corporate America, the area of acceptability, although no fraud is acceptable, is 6 percent. So from an industry standard, our occurrence of fraud is far less the national average, but it is still unacceptable.

Ms. ROS-LEHTINEN. Just to follow up, would any of the governance reforms that you are undertaking deal with bringing down some of these claims, or is that unrelated?

Ambassador MCELVEEN-HUNTER. No, I think this is an issue that falls under our whistleblower and one of the bylaws issues is our renewed commitment to making sure there is the availability of the whistleblower and the access for both our volunteers and employees to make sure that those are taken even more seriously.

So I think that there was a commitment, a renewed commitment, as part of that under the whistleblower portion of the governance.

Ms. WILLIAMS. If I might add, Mr. Chairman, in addition, the reforms suggested by the governance committee included an ombudsman to have access to financial information from the Red Cross. So that is an additional level of review that will be available.

And as I understand it under the version of the bill that passed the Senate, there are several committees, including this committee, to whom that ombudsman would issue an annual report.

Ms. ROS-LEHTINEN. Thank you. Thank you very much, and thank you again as a Floridian for your excellent help in all of these seasons that we have had. Thank you.

Ambassador MCELVEEN-HUNTER. Thank you very much.

Mr. DELAHUNT. And I would now call on, for her questions, the gentlelady from California, also a former Ambassador, our colleague, Diane Watson.

Ms. WATSON. Thank you so much, Mr. Chairman, and I want to welcome the Ambassador and Mrs. Williams, retired now. I just want to commend the Red Cross for its work. There were some problems that arose during Katrina, and then in the aftermath, we heard that enormous salaries were being paid to the people who were there in the dome giving out—in fact, we heard a lot of things.

So I wonder if you can explain if any of those are true? They said they were giving volunteers \$250 a day. Well, that was hard to believe, but I think that you have mentioned that you have worked hard to correct some of these things, and so can you just comment on some of the changes that have been put in place since Katrina?

Ambassador MCELVEEN-HUNTER. Right. Well, Your Excellency—

Ms. ROS-LEHTINEN. She has us call her that every morning. I am sick of it already.

Ambassador MCELVEEN-HUNTER. My husband is the only one who still has to call me Your Excellency. I am unaware of any excessive payments to any of our volunteers. I think there were many stories that were circulated, including, I think, expensive luxury items that people were buying and so forth with the monies that were given to them as part of the client assistance program.

I have to say that when I see our volunteers, and I see the conditions that they are willing to submit themselves to, to be a volunteer, they in many cases are living exactly as those displaced individuals and victims.

The conditions are—I am sorry, but I have to say that I just stand proudly with their willingness to do what they do. I am not aware of anyone who received payments of that as a volunteer.

And I think also that I was asked yesterday, Congresswoman, how much does the board get paid, and I understand that they are going to double my salary. So we are still at zero. But the reality is that, sure, there are cases where there are very few volunteers who violate the trust of this organization.

And yesterday actually I was asked on a radio talk show why we were so stringent on our background checks of our volunteers, because they thought perhaps we were making it too difficult to volunteer.

When you realize the trust that people have that are running shelters and participating in shelters while families and children are living there, it becomes critical. So I am not sure that I am answering your question, but my understanding is that I have not heard of any \$250 payments to volunteers, and I really see nothing but selfless sacrifice.

Ms. WATSON. That has been the reputation of the Red Cross, and I have had the greatest amount of respect. We did come and visit with you some time ago as a Congressional Black Caucus, because we were concerned about the diversity at the top, and that had been worked out, and we were concerned.

You know, the fingers were pointing in so many different ways during Katrina and the aftermath. But the Red Cross has always been there, and I just wanted some clarification if any of that had any bearing on the truth, and I am glad to hear your response.

We support you. We will always support you and thank you for the work that you do, and you had an increase from zero, plus zero, equals zero.

Ambassador MCELVEEN-HUNTER. Exactly.

Ms. WATSON. Thank you so very much.

Ambassador MCELVEEN-HUNTER. Thank you, Congresswoman Watson. I would like to say that one of the things that we did learn as an organization is that my grandfather's advice, which I shared with Congresswoman Jackson Lee yesterday, is that it is more important to select your partners than to select your business.

When we looked at those individuals who were in our shelters, they didn't look like our volunteers. So we believe that there is an opportunity in that to reach out in partnership to faith-based organizations, to civic organizations.

We recognized that we didn't speak Vietnamese, and we were in Biloxi, and Gulfport, and they did, and we needed representatives who could reach out to that community. But I am very proud of some of the programs that we have initiated, including we have trained 1,000 members of the NAACP, and not just as volunteers, but as managers of shelters.

And I am happy to report to Congresswoman Ros-Lehtinen, that we actually deployed some of those members to the tornadoes in Florida a few weeks ago. I know that also Congresswoman Jackson Lee has been very instrumental in partnership in Houston with something called Helping Hands, with a hundred of the African-American community churches, where we now have a renewed partnership.

So I think as Congressman Delahunt mentioned, there has been a silver lining, and that silver lining is partners are more important to this organization than they ever were, and must be going forward.

But the diversity issue is an issue where we must engage communities, because the ownership in many cases of this work belongs right there in the community itself.

Mr. DELAHUNT. The gentlelady from Texas, Ms. Sheila Jackson Lee.

Ms. JACKSON LEE. Mr. Chairman, thank you very much. I am delighted to join my colleagues this morning, and it certainly is an honor to have two Ambassadors in the room, and to have one of the more renowned counselors, attorneys, in Karen Hastie Williams, whose family has such an enormous legacy, and certainly for those of us who have in our previous life practiced law have a great deal of respect for.

So we greatly appreciate the work that has been done. I would consider today almost a miracle, because I happened to as my colleagues have mentioned, I have listened to fairly flowery commentary coming from this committee, and coming from Houston, I lived through not only Hurricane Allison, but certainly the largest evacuation of Americans, of human beings, that I think we faced in American history.

I come from the area where the Galveston floods of the early 1900s took 6,000 lives. No one evacuated. It was a firsthand experience having to address hurricanes seriously, but certainly there were no notices and no places to evacuate.

So this was our first experience, and I frankly, if I can recount for just a brief moment, I was on the telephone as the governor was giving the orders. The Governor of Texas had received a call and the buses started rolling in the middle of the night into Reliant, and we were on the telephone sort of with two phones to our ears dealing with doctors who were crying out for resources.

But I will say this: The Red Cross was on the scene, and I believe that where we went awry was in the aftermath of the utilization of Red Cross volunteers and how they were trained. And I just suppose that against the fact that we are grateful for the millions of volunteers that every day offer themselves to fly wherever there is a disaster.

But I think, Madam Chairwoman, and to Ms. Williams, that is where we faltered, and I want to make a comment that says that—

it is an article, "Rescuing the Red Cross," and it said that after Hurricane Katrina the Red Cross is trying to reorganize itself to make clearer distinctions between governance and management.

For millions across the nation who are likely to need the organization's help in the future, this is good news. And I would like to offer to the chairperson, and I would like to ask for unanimous consent to put two different articles in the record, "Red Cross, Keeping Up With Fires." It is a local article from Milliford, New Jersey, I believe, and it talks about the local chapter confronting the issue of fires in the community from the Bridgeton News.

And then I would like to put "The Red Cross, Red RB Center Teams Up for Future Emergencies," and this has to do with the Red Cross in, I think, Raleigh, Wake County. I would ask for unanimous consent to submit these in the record.

Mr. DELAHUNT. Without objection.

[The information referred to follows:]



Bridgeton News

Red Cross keeping up with fires

Wednesday, March 14, 2007

By **MATT DUNN**
Staff Writer

February was an especially difficult month for home fires, according to Ben Maldonado, a spokesman for the local chapter of the American Red Cross.

"It's been a tough winter so far," he remarked Tuesday.

From kids playing with matches to electrical problems, firefighters in Cumberland County have been kept busy and the Red Cross has been busy itself doling out money to help displaced families with food, clothes and lodging.

Cumberland/Atlantic County Red Cross Executive Director Pam Grites said Tuesday, since July 2006, the non-profit organization has helped 170 people in Cumberland County.

She added a total of 12 households received aid in February, alone.

The organization helped 371 county residents during its 2005-06 fiscal year.

"(This year) has not been as bad as last year," Grites said. "But the year is not over."

Despite local charities hurting from the majority of charity aid in the last few years going toward victims of Hurricane Katrina, Grites said the Red Cross is committed to assisting local residents.

"We're always out raising funds," she remarked. "Almost all our resources are directed toward disaster relief."

April 14, the group will hold a walk-a-thon in downtown Millville for charity.

People interested in participating can obtain registration forms from the Red Cross's Web site or by calling 609-646-8330, ext. 206.

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Red Cross, RBC Center Team Up for Future Emergencies

Hurricane Katrina sent most of New Orleans scrambling for higher ground in September of 2005, and hundreds of evacuees ended up at a vacant corporate training center in Raleigh. In less than 24 hours, it was converted to a shelter.

"Everyone got an eye opened when Katrina happened, when we had to see 50,000 or more people fleeing at one time, and an entire city evacuating," said Barry Porter with the Triangle Red Cross.

Some 400 Raleigh, Wake County, and RBC Center employees partnered to make the shelter as comfortable as possible. It had space for sleeping and even a kitchen, but it wasn't perfect. Evacuees had to go to the RBC Center to shower.

That's why the Red Cross is teaming up with arenas like the RBC Center to develop a better plan.

"We have to start to think broader, deeper, and bigger in our strategies on how to deal with people who are going to relocate," Porter said.

The RBC Center would be a perfect place for a mega-shelter, except for one major detail -- what do you do with all the events scheduled there and with all the people buying tickets for them?

"If we can address them in peacetime -- proactive rather than reactive -- then we're okay," said Larry Perkins, the RBC Center's assistant general manager.

Perkins is also president of an international group made up of arena managers. That group is working with the Red Cross on ways to make better use of big facilities like the RBC Center.

"Our government can't do it alone," Perkins said. "It's up to us to help our government and protect our citizens."

Perkins said events could reschedule at other venues to allow the arena to stay open as a mega shelter. That's one of several things his group plans to study under the plan.

Reporter: [John Baclunon](#)
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Ms. JACKSON LEE. Thank you, Mr. Chairman. The reason is because juxtapose the ongoing work with the importance of getting this organization back on its feet, and I am going to pose a question by saying that I hope to be an original co-sponsor when we offer this legislation through our chairman.

But the ombudsman concept is excellent. The smaller board is excellent, because certainly rapid response presidents is not excellent. One president after another is not an excellent thought.

So maybe you could again reinforce for me first, Ms. Williams, and then to the chairperson, how you believe this new separation of management and governance really will impact both the image, perception, and the work of the Red Cross.

And then if I may ask sort of the ugly question is are you prepared now to listen to local communities so that we can overtake that bad taste that people had. They came in here and they didn't listen. We couldn't collaborate, because one of the things that I think should be noted, and that I am very proud of, is that we got churches certified in the middle of the crisis as Red Cross shelters.

So we were in the middle of the crisis and we kind of got a wake up call, and the Red Cross did respond, particularly in Houston since we had all these people with no places to go. But we had some bumps in the road, but once we got their attention, we were able to certify.

Wonderful churches would just open their doors, and I would greatly appreciate the governance question, and Mr. Chairman, if you would indulge them on their answers I would appreciate it, because there have come a mighty long way, and I want to congratulate you, and thank you for mentioning Helping Hands, which is a massive effort in Houston, which I commend to my members for their jurisdictions. Ms. Williams.

Ms. WILLIAMS. Ms. Jackson Lee, the governance changes I believe will clarify the role of the board and the role of the president of the Red Cross. I think that because of the way the charter is currently written, and uses the language of principal officer with respect to the chairman, I believe it really muddled the waters, although I think that the president with the clarification will now have clear authority in terms of management issues.

He or she will continue to work with the board to be a part of the dialogue, looking at ways that they can improve both communications and on the ground processes when there is a disaster, and we know that there will be disasters in the future. That is just life.

But I think that having this clarity, having the smaller board, which will be more nimble, able to act and be responsive, I think in a more timely fashion, I think that the operations will work much better, and that the responsiveness of the Red Cross will be enhanced 1,000-fold by the restructuring of the management clearly with the president, and the policy level handled at the board level.

Mr. DELAHUNT. Ambassador.

Ambassador MCELVEEN-HUNTER. Yes. I agree. Clarity, communication, and accountability. I think that these governance reforms will offer the opportunity, although practice was very different than

the charter, because the principal officer was not the chairman of the board.

But it was confusing because the charter stated that the chairman was the principal officer. I believe that the transformation that we are asking for is only being asked because the board, our entire board, believes that we will be more effective in our roles, and that we will also be required to hold management accountable for their roles.

And the independence of both will make us both more effective and I think better able to accomplish the mission of the Red Cross. On the issue of volunteers and training, as I mentioned, I think one of the issues was that we had 235,000 volunteers respond to Katrina.

Many of those were spontaneous volunteers, people who simply said I want to do something. That is once again I think an extraordinary aspect of the American people, that they were willing to close or shut their personal lives down to go do what they were willing to serve the American Red Cross and other organizations during Katrina.

But training is critical, because a volunteer that has not been trained and is not able to really contribute can also be someone who is a burden to the system, and not really someone who can make a major contribution.

So one of our commitments in many of our programs around the country is, number one, better communications in our local communities with our emergency response teams. Better communications with civic organizations and volunteers from those pre-trained.

We even have a program with the Junior League where people can receive under the Junior League program disaster preparedness training from the American Red Cross; the AME Church volunteer training program, and as I mentioned several others that are part of the overall initiation. But there is no more critical aspect of what we are doing going forward than to be better at what we do than the critical nature of training in advance of the disaster.

Ms. JACKSON LEE. Thank you, Mr. Chairman, and we look forward to the diversity on the board as well. Thank you very much.

Mr. DELAHUNT. And let me on behalf of the committee thank you again for your service, and I am confident that this committee will respond accordingly, and this hearing is now adjourned.

[Whereupon, at 11:30 a.m., the committee was adjourned.]

A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD

MATERIAL SUBMITTED BY THE HONORABLE ILEANA ROS-LEHTINEN, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF FLORIDA

AMERICAN RED CROSS CORPORATE COMPLIANCE AND ETHICS
A REPORT TO THE HOUSE COMMITTEE ON FOREIGN AFFAIRS

MARCH 2007

Over the past several years, and particular since passage of the Sarbanes Oxley Act in 2002 (Pub. L. No. 107-204, 116 Stat. 745), the American National Red Cross has taken a holistic approach to *voluntarily* implement corporate ethics and compliance practices.

To achieve this, the American Red Cross has incorporated some of the best practices from the corporate and nonprofit sectors, which include the refinement of its internal and independent external audits, whistleblower reporting and protections, enterprise risk management, a unit focused on Investigations, Compliance and Ethics (ICE), and most recently, the creation of the Office of the Ombudsman.

At the center of corporate compliance is the Board of Governor's Audit and Risk Management Committee, which receives and reviews reports presented by these independent units.

Through these internal and external functions, the American Red Cross endeavors to achieve system-wide corporate compliance. In addition, the organization strives to meet the expectations of transparency and accountability of the United States Congress, internal employee and volunteer stakeholders, and external stakeholders such as clients, donors, suppliers, partners, and the American public. As an independent 501 (c)(3) nonprofit organization, the American Red Cross relies on the generosity of the American public to fulfill its mission. The American Red Cross takes seriously all allegations of waste, fraud and abuse as well as other complaints against the organization. Allegations of illegal and unethical activities are fully investigated and, if necessary, reported to appropriate authorities for further action. Fostering such faith, trust and confidence with the American public is an imperative.

This document will identify the various aspects of corporate compliance, as well Red Cross practices to ensure transparency through accessibility and reporting.

Red Cross Board of Governor's Audit and Risk Management Committee

The Audit and Risk Management Committee of the American Red Cross Board of Governors oversees the integrity of the financial statements of the organization, the qualifications and independence of the organization's independent auditors, the performance of the external and internal auditors, investigations, the organization's enterprise risk management functions, the organization's compliance with legal and regulatory requirements, and the Ombudsman. It is composed of entirely independent directors of the Red Cross, and members of the Committee must possess qualifications and financial knowledge that enable them to discharge the responsibilities of the committee. At least one member is required to be a "financial expert."

Audits

Both internal and external audit functions of the American Red Cross report directly to the Audit and Risk Management Committee of the Board of Governors.

The internal audit services, led by a Chief Audit Executive, is authorized to examine all aspects of the American Red Cross including but not limited to national headquarters, blood services and chapters. During their review, the auditors are

given complete access to manual and electronic records, properties and personnel. Moreover, to ensure impartial and unbiased actions, they are fully independent of the activities they audit. The Chief Audit Executive has direct access to the Audit and Risk Management Committee and reports functionally and directly to the Committee and administratively to the CEO.

The external audit services, conducted by KPMG LLP, review the financial statements and related financial controls of the American Red Cross. To ensure impartiality, the lead partner rotates every five years.

Investigations, Compliance and Ethics (ICE)

The Investigations, Compliance and Ethics (ICE) Unit at the American Red Cross is the central investigatory unit charged with investigating allegations of waste, fraud and abuse. The ICE unit is led by a Vice President, who reports to the organization's General Counsel, and consists of more than 40 investigators and compliance and ethics specialists.

The American Red Cross encourages all employees and volunteers to alert their supervisors directly if they suspect a dishonest act. If employees or volunteers are not comfortable contacting management, they may call the 24-hour, toll-free Concern Connection Line (CCL), which is overseen by ICE. Through this toll-free number, the CCL allows any employee or volunteer to report confidentially and anonymously any allegation of waste, fraud or abuse. The Red Cross provides whistleblower protections and a "no retaliation" policy to all Red Cross employees and volunteers¹.

The American Red Cross is committed to the highest standards of ethics and workplace conduct. All staff and volunteers are required to read and sign the Code of Business Ethics and Conduct, which provides the guidance necessary for Red Cross employees and volunteers to maintain an environment of integrity. In that regard, ICE oversees Red Cross ethics policy and training programs, including the aforementioned Code of Business Ethics and Conduct. Through training, volunteers and employees will be more familiar with a culture of values and ethics and will know how to report instances of unethical behavior.

The ICE unit also manages the Office of Corporate Compliance (which handles grants compliance). In conducting investigations, the unit has unfettered access to all organizational record, physical properties, and individuals. The Vice President of ICE reports regularly to the President and Chief Executive Officer, senior management, and the Audit and Risk Management Committee of the Board of Governors.

Enterprise Risk Management

In an effort to mitigate risk by the corporation, the American Red Cross has appointed a Chief Risk Officer who is charged with developing an enterprise risk management (ERM) program for the entire organization. Modeled on the best practices of corporate America as a means to better protect corporate assets, enterprise risk establishes a disciplined approach for the organization's various business units to identify, evaluate, manage and report risks and opportunities.

The Red Cross ERM Unit provides counsel to business units to identify, evaluate, and mitigate risk; enhance decision-making at all levels by requiring a clear articulation between business objectives and risk versus reward; assist in identifying insufficient internal controls (particularly in the areas of waste, fraud and abuse); and provide the Board's Audit and Risk Management Committee with information regarding the corporate level risks and mitigation.

Office of the Ombudsman

Most recently, the American Red Cross has created an Office of the Ombudsman. This office will act as a neutral and impartial dispute resolution center whose major function will be to provide confidential and informal assistance to the many internal and external constituents with concerns or complaints about the American Red Cross. The Office of the Ombudsman will have unfettered access to the entire corporation and all personnel, corporate reports, documents, and will report directly to the organization's Chief Executive Officer and on a regular basis to the Audit and Risk Management Committee of the Board of Governors.

In addition to conflict resolution, the Office of the Ombudsman will report annually to the U.S. Congressional Committees of jurisdiction, areas and types of concerns, including trends and systemic matters that the Ombudsman determines to

¹The Red Cross also has a Biomedical Response Line (BRL), which allows individuals to report anonymously and confidentially any issues involving biomedical services or FDA compliance issues. These issues are addressed by the Biomedical Services Quality and Regulatory Affairs group.

be confronting the organization. As a practice, these reports will also be made available to the public through the Red Cross external website, www.redcross.org.

American Red Cross Transparency

The American Red Cross endeavors to achieve enhanced corporate transparency and accountability to internal and external stakeholders. One mechanism is the public website, www.redcross.org. The American Red Cross will make available on that public website detailed information of the programs described above explaining the Red Cross corporate compliance and ethics programs, including audits, investigations (ICE), the Office of the Ombudsman, the Concerned Connection Line (CCL) and Biomedical Response Line (BRL), and Enterprise Risk Management (ERM), as well as contact information for each of these units.

Additionally, the Red Cross will fulfill reporting requirements to the U.S. Congress and regulatory agencies and will make these reports available to the American public through its external website, www.redcross.org².

The American Red Cross is committed to be transparent and accountable to the American public. As such, the American Red Cross already makes available, in its entirety, the annual IRS Form 990, external independent audit, and consolidated financial statements on its external website, www.redcross.org. In addition, the Red Cross requires chapters to share copies of their annual audit and/or annual report in response to any public inquiries about local Red Cross activities. The Red Cross will continue to provide this information on its public website.



²To protect the confidentiality and integrity of clients to the Ombudsman and ICE investigations, the American Red Cross will redact any confidential, identifying, or proprietary information as necessary.