



**American  
Red Cross**

**National Headquarters**  
430 17th Street, N.W.  
Washington, DC 20006

Office of the Interim Chief Executive Officer

June 14, 2002

**BY HAND**

The Honorable Charles Grassley  
Ranking Member, Senate Committee on Finance  
United States Senate  
219 Dirksen Senate Office Building  
Washington, D.C. 20510-6200

Dear Senator Grassley:

Thank you for the opportunity to provide you and your Senate colleagues an overview of the American Red Cross and our service to the American people. We agree wholeheartedly that accountability and transparency are critical to sustain public confidence and support for our services as well as those of other charities. We have tried to be as thorough as possible in providing responses to your questions. If there is any further information you need, please do not hesitate to call on me.

I want to take this opportunity to provide a high-level view of our perspectives on the important subjects covered by your letter.

Much of your letter asks about our response to the unprecedented events of September 11. As you know, we are now following a plan developed in consultation with Senator George Mitchell which calls for 90% of the funds raised (as of the January 31 date when it was announced) to be disbursed to families affected by the attacks by the first anniversary this September. We remain on track to meet this goal. We have just announced our plans to complete the final phase of the Family Gift program, and launch both the Supplemental Gift and Special Circumstances Programs. These three programs combined with our long term care services will provide about \$200 million more in the next three months in financial assistance and services to the families most seriously affected by the attacks, bringing our total assistance to roughly \$765 million during this first year.

The Red Cross openly acknowledged that initial policies regarding the Liberty Fund were not consistent with the intent of donors. The policies were changed and Red Cross has kept its promise to spend all of the Liberty Funds in support of the families affected by the attacks. The Red Cross has met all of its commitments to disburse money according to schedule. The Red Cross will continue to publicly disclose our progress in

***Together, we can save a life***

quarterly reports approved and released by Senator Mitchell in his capacity as the Independent Overseer of the Liberty Fund.

As we move forward, our focus will remain on the families who suffered so much and on being good stewards for the unprecedented charitable gifts made by Americans to the Liberty Fund. It is important for Congress and the American people to appreciate the enormity of this unique undertaking. The Red Cross has helped over 3,300 families whose loved ones were killed or seriously injured in the attacks, and 55,000 people who were displaced from their residences or lost income or jobs, as well as the rescue and recovery workers. We have mobilized over 56,000 volunteers and staff. We have delivered 14 million meals and had over 236,000 mental health contacts. In all, we are managing a billion dollar disaster services program. Our efforts have not been perfect, nor could they be under these circumstances. But we have and continue to do our best to provide support, comfort and assistance to victims in need, which is what Americans expect from the American Red Cross.

One of the issues at the heart of the Liberty Fund controversy prior to our change in policy was the issue of donor intent. Last week we made an announcement introducing Donor DIRECT, a new set of fundraising practices which significantly strengthen our ability to recognize and honor donor intent across all of the Red Cross' disaster fundraising. This new program, which has been in development since last fall, will help us do a better job in four important ways:

- First, it will ensure that donors who make undesignated contributions to the Disaster Relief Fund have a better understanding of how their funds will be used.
- Donor DIRECT will enable the Red Cross to confirm in the donation process that donors understand how their donations will be spent.
- Donor DIRECT will acknowledge and reconfirm the intent of donors, and give each contributor a phone number or e-mail address to question or change their designation if they so desire.
- And, finally, when we forecast that more money will be raised around the time of a disaster than is needed to provide customary Red Cross disaster services, we will announce this fact and encourage donors to give to their local chapter or to support future disaster relief efforts through the Disaster Relief Fund. This will avoid the problem of "oversubscription" that often leads to concerns among donors about how their money is used.

As you may know, the Red Cross responds to an average of 67,000 disasters every year. Most of the time, year after year, we get it right both in terms of our fundraising and our disaster relief services. But in a few high profile cases over the last fourteen years, donors felt their intentions were not honored. I believe that Donor DIRECT will not only help us avoid these problems in the future, but equally important, it also represents a stronger commitment to our donors, and to the goals of transparency and accountability that I know are important to you.

The American Red Cross and its chapters form a single national corporation, formally established under the Congressional Charter of 1905, to help fulfill U.S. treaty obligations under the Geneva Conventions. The Charter mandates that the Red Cross maintain a system of domestic and international disaster relief, and serve as a medium of communication between members of the military and their families. The United States Supreme Court has described the role of the American Red Cross “virtually as an arm of the Government,” and found that it is exempt from certain state and local taxes as well as other obligations imposed by state or local law. (*Department of Employment v. United States* 385 U.S. 355 [1966]). This status has been affirmed by various acts of Congress and committee reports over the years.

The unique position of the American Red Cross comes with special responsibilities that we believe exceed those of other charities. Most significantly, the President of the United States names eight members of the Red Cross Board of Governors, and through them the executive branch actively participates in the policy decisions of the organization. The Red Cross not only files IRS Form 990, but our external audit by KPMG also is subject to review by the U.S. Army Audit Agency which, in turn, reports to the President Pro Tem and Speaker of the House. The Red Cross also sends copies of its annual report and audited financial statement to all 535 Members of Congress and voluntarily to all state Attorneys General. Moreover, there are three congressional committees that name the Red Cross in their jurisdictional language: the Senate Health, Education, Labor and Pensions Committee, the Senate Foreign Relations Committee, and the House International Relations Committee. Seven additional committees, including Senate Finance, exercise oversight over major activities of the Red Cross.

In sum, the last nine months have been challenging ones for the Red Cross because of the 9/11 response as well as a number of other issues. These challenges have tested the Red Cross, but they also have shown the remarkable strengths of this great organization – its willingness to learn from its successes and its mistakes; its dedication to helping the victims of disasters and safeguarding the trust of Americans whose generosity make these services possible; its commitment to accountability and transparency; and above all, the enormous hearts and talents of all those staff and

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volunteers who work day and night under the most difficult circumstances to help people in need.

Understandably, your letter focuses on areas that may be of concern to you and your colleagues. But I do feel it is important to mention the vital humanitarian services that are delivered by the Red Cross every day, often without any notice by the media or public officials. These include an average of 180 disasters that we respond to every day, as well as the millions of people who benefit from our life-saving services such as blood, first aid training and CPR skills.

It was and still is my intention and that of our Board leadership to meet with you to directly address your questions. Unfortunately, my staff has been informed that your schedule does not permit us to meet until after the June 14th deadline for submitting our written response to your inquiries. I look forward to sitting down with you at your earliest convenience.

Sincerely,



Harold J. Decker  
Interim President and Chief Executive Officer

Enclosure

cc: The Honorable Max Baucus, Chairman, Senate Committee on Finance  
The Honorable Donald H. Rumsfeld, Secretary of Defense, Dept. of Defense  
The Honorable Eliot Spitzer, New York State Attorney General  
The Honorable Jerry W. Kilgore, Attorney General of Virginia  
The Honorable Mike Fisher, Attorney General of Pennsylvania

**American Red Cross Response  
To May 7, 2002 Letter from  
Senator Charles E. Grassley  
June 14, 2002**

**Note: The responses below apply to the activities and interactions of the American Red Cross National Headquarters (Corporate and Chapter Services Network), the 1,007 chapters, and the 4 Regional Offices that oversee chapter compliance. As directed by Faith Cristol, Senate Finance Staff, in a phone call on June 4, 2002, with Larry Moore, Interim General Counsel, we have not provided background on the American Red Cross Biomedical Services.**

**Question #1**

**To date, please state the total amount of money that the Red Cross has received in pledges in response to the 9-11 terrorism, the amount collected, the amount distributed, and plans for any remainder funds that are not distributed. Also, identify any subset of this relief (i.e., World Trade Center victims) and any funds relating to same (i.e., the Liberty Fund). For all such subsets and/or funds, please state the amount of money received in pledges, the amount collected, the amount distributed, any timetables for distribution, and plans for any remainder funds that are not distributed.**

**Question #1 - Response**

All funds received in response to the terrorist attacks of September 11<sup>th</sup> were deposited in the Liberty Disaster Relief Fund (Liberty Relief Fund), a distinct and segregated fund upon its creation on September 20<sup>th</sup> to assist those affected by the attacks. *Funds received prior to this date were initially deposited in the national Disaster Relief Fund and designated for the victims of these attacks, and were transferred to the Liberty Relief Fund after its creation.* All of these funds have been and will continue to be spent exclusively to help people affected by the September 11<sup>th</sup> attacks.

In December 2001, Senator George Mitchell agreed to serve as the Independent Overseer of the Liberty Disaster Relief Fund and to help develop a plan for the distribution of the remainder of the Fund. In consultation with victims, donors, other charities, Mayor Michael Bloomberg, Attorney General Eliot Spitzer, and other elected officials, the American Red Cross and Senator Mitchell developed and announced this plan at a press conference on January 31, 2002 (see Attachment 1). Senator Mitchell also promised publicly and to Attorney General Spitzer to issue quarterly reports detailing how these funds were being spent. On April 30, 2002, the first Liberty Fund Distribution Plan Quarterly Report was released (see Attachment 2).

As of April 30, 2002, the Red Cross had received \$967 million for the Liberty Disaster Relief Fund and had spent or committed a total of \$567 million. All remaining funds have been allocated pursuant to the Mitchell Plan, which along with the Quarterly Report

is posted on our public Web site, and general information on the distribution of the Liberty Relief Fund is posted on a weekly basis ([www.redcross.org](http://www.redcross.org)).

There are three categories of beneficiaries of the Liberty Disaster Relief Fund:

1. More than 3,300 families of the deceased or missing and persons seriously injured in the attacks in New York, Pennsylvania, and the Pentagon;
2. About 55,000 displaced residents and economically affected individuals living or working south of Canal Street in Manhattan at the time of the attacks, and disaster responders at the sites in New York, Pennsylvania, and the Pentagon; and
3. Those served through our immediate disaster assistance on-site in New York, Pennsylvania, the Pentagon and at the airports from which the hijacked planes departed and their intended destinations. A total of 56,878 disaster workers, of which 54,577 are volunteers, have provided 14 million meals; 236,000 mental health counseling contacts, more than 131,000 health services contacts, and emotional support.

***Based on the Mitchell Plan and the Quarterly Report of April 30, 2002, by the end of 2002, the American Red Cross will have distributed nearly all of the Liberty Disaster Relief Fund, except for funds used to provide longer-term financial assistance and disaster services (e.g., mental health counseling and various support services for those affected by the attacks). As promised in the Mitchell Plan, nearly ninety (90) percent of the funds in hand when the plan was announced in January will be disbursed by the first anniversary of the attacks. Between the time the Mitchell Plan was announced in January and the release of the Quarterly Report on April 30, 2002, an additional \$117 million in contributions were received bringing the total in the Liberty Relief Fund to \$967 million, to be distributed as follows:***

- Overall, the Red Cross expects to provide \$822 million to provide for the immediate and long-term needs of those affected by the attacks (categories 1 and 2 above). This includes about \$114 million to provide longer-term disaster services, support and referrals over a three-to five-year period, based on demonstrated needs. Primary areas of service will include mental health care and uncovered health care, as well as family support (primarily for the families of the deceased and seriously injured).
- With regard to immediate assistance, the Red Cross will provide approximately \$105 million to cover services for those immediately impacted by the attacks, as well as rescue and recovery workers (category 3 above). This assistance has included over 14 million meals, shelter, mental health services, and health services.
- The final 4 percent of the Liberty Relief Fund has been, and will continue to be, used to cover direct support costs for these efforts.

## **Question #2**

**Please state whether any donations or gifts-in-kind received by the Red Cross in response to the 9-11 attacks have been or will be used to cover any administrative expense. If so, please explain how such use of those funds complies with the Principles and Rules for Red Cross' Disaster Relief that prohibits using cash gifts to cover administrative expenses included in its ordinary budget.**

### **Question #2 - Response**

No portion of the Liberty Disaster Relief Fund will be used to pay Red Cross general administrative expenses or any other costs not related to the Fund, consistent with public commitments made by David McLaughlin, Chairman of the American Red Cross, and Harold Decker, Interim President and CEO, at press conferences on November 14, 2001 and December 27, 2001. This commitment was reaffirmed by Senator Mitchell on January 31, 2002 and in his quarterly report on April 30, 2002. Contributions to the Liberty Disaster Relief Fund are being used exclusively to meet the needs of people directly affected by the September 11<sup>th</sup> tragedies.

As of April 30, 2002, the Liberty Disaster Relief Fund had received \$967 million. To date, 96 percent of the Liberty Relief Fund has been allocated for financial assistance and services to those directly affected by the September 11<sup>th</sup> terrorist attacks and immediate disaster relief. The remaining 4 percent has been used to offset direct support costs. These costs include, for example, costs for donation processing, acknowledgement, accounting, and auditing. As we have stated publicly, to the greatest extent possible, the Red Cross will use interest earned on the Liberty Fund to cover these direct support costs.

The *Principles and Rules for Red Cross' Disaster Relief* is a document of the International Federation of Red Cross and Red Crescent Societies (Federation) and applies to accounting and auditing for joint or separate operations administered by the Federation and/or the International Committee of the Red Cross (ICRC). The disaster operations provided following the September 11<sup>th</sup> attacks were directed by the American Red Cross, without operational support by the Federation or the ICRC. While the Federation document is not germane to this operation, American Red Cross policy with regard to the Liberty Relief Fund has been to use these funds to provide assistance to people directly affected by the attacks.

### **Question #3**

**Other than administrative expenses, please state whether any donations or gifts-in-kind received by the Red Cross in response to the 9-11 attacks have been or will be used for any expense unrelated to disaster relief. If so, please identify the expense and explain how such use of those funds complies with the Principles and Rules for Red Cross' Disaster Relief (No. 25), "Gifts sent to a National Society may only be used for the purpose designated and will serve in the first place to give direct assistance to the victims."**

### **Question #3 - Response**

Consistent with the commitment made by the leadership of the American Red Cross at a November 14, 2001 press conference and reaffirmed by the Mitchell Plan on January 31, 2002, and the April 30, 2002 Quarterly Report, the Liberty Disaster Relief Fund will be used exclusively to meet the needs of those directly affected by the September 11<sup>th</sup> attacks. No portion of the Liberty Disaster Relief Fund will be used for any expense unrelated to this disaster relief operation (see the chart in Attachment 2 for a breakdown of the initial distribution plan as outlined in the Mitchell Plan on January 31<sup>st</sup>, 2001 and the updated plan outlined in the April 30, 2002 Quarterly Report).

**Question #4**

**Please state what amounts of money received between 9-11 and the present will not be solely allocated to 9-11 relief funds such as the Liberty Fund. Also, please state where this money will be allocated and how it will be used.**

**Question #4 - Response**

Consistent with policies established by the Board of Governors, all donor designated contributions are directed to the applicable program. With respect to the Liberty Disaster Relief Fund, the Red Cross has operated under the most conservative guidance possible, crediting every contribution in the immediate aftermath of the September 11<sup>th</sup> attacks until October 30, 2001. On that date the Red Cross announced the end of active solicitation of contributions for the Liberty Disaster Relief Fund.

The Red Cross has instituted unprecedented financial procedures and controls to ensure the highest level of accountability and accuracy in its accounting for contributions to and disbursements from the Liberty Disaster Relief Fund. This includes supplemental audit procedures by Red Cross internal audit staff and KPMG LLP, as well as special independent audit reviews conducted at more than 800 chapters handling the largest volume of Liberty Fund contributions.

In addition to Disaster Services, the American Red Cross:

- Provides half the nation's blood supply through its Biomedical Services;
- Supports the military and their families through the Armed Forces Emergency Services Program;
- Empowers individuals, families, and communities to respond to life-threatening situations through our Health and Safety courses; and
- Provides humanitarian relief and development around the world through its International Services program.

Between October 1, 2001 and March 31, 2002, the Red Cross received \$1.5 billion in total contributions and revenues to support these services. Approximately \$1 billion was for cost recovery for blood services. (See Attachment 3 for a summary of contributions and revenue sources, excluding the Liberty Disaster Relief Fund, from October 1, 2001 to March 31, 2002).

**Question #5**

**Please describe the criteria for distributing money to any applicant for 9-11 relief. Also, describe the method for distributing these funds (i.e., any paperwork required from relief applicants). Given that these applicants are from different regions (i.e., New York, New Jersey, Virginia, Pennsylvania, etc.), I appreciate your including specific criteria and distribution methods per locality in your response.**

**Question #5 – Response**

As in all disasters, the Red Cross immediately established disaster operations at the World Trade Center site, the Pentagon, and in Shanksville, Pennsylvania. The Red Cross also dispatched trained Air Teams to airports throughout the country consistent with our



role in support of the National Transportation Safety Board under the “Aviation Disaster Family Assistance Act of 1996” [Public Law 104-264 Title VII Oct. 9, 1996, 110 Stat 3264]. At these sites, Red Cross provided immediate disaster relief and ongoing respite care and other assistance to victims and rescue workers. To date Red Cross has:

- Assigned more than 56,000 volunteers and other disaster workers to this operation;
- Served nearly 14 million meals;
- Provided counseling to more than 236,000 individuals and health services to more than 131,000 people; and
- Facilitated travel arrangements around the country for more than 800 families to attend memorial services and funerals, and assisted stranded travelers throughout the country.

The criteria for distributing financial assistance under the Liberty Fund vary with the type of program under which the assistance is provided. The Red Cross has testified before the House Energy and Commerce Committee (11/6/01) and the House Ways and Means Oversight Subcommittee (11/8/01); held press conferences on 11/14/01, 12/27/01 and 1/31/02; and established an 800 number in order to be transparent and share our eligibility criteria with the American public. These programs, which are also described in the Liberty Disaster Relief Fund Distribution Plan as announced by Senator Mitchell on January 31, 2002, are as follows:

**a. Families of the Deceased and Seriously Injured:**

On September 20, 2001, the Red Cross announced the creation of the Family Gift Program (FGP) to provide a full year of financial support to families dependent on those who died and to those who were seriously injured in the 9/11 attacks. This type of support is outside of our traditional disaster services, but it was necessary to meet the unique needs of these families. In a natural disaster, normally the family is intact, but the home has been damaged or destroyed. With the terrorist attacks, families had been torn apart by the death of the primary wage earner, yet the home was intact.

Consistent with the Mitchell Plan (and the first Quarterly Report of April 30, 2002) these families are expected to receive \$398 million in financial assistance by the end of 2002. In the first two phases of this program (FGP1 and FGP2), we have provided \$171 million to more than 3,300 families, in most cases covering nine months of basic living expenses, such as food, clothing, utilities, mortgage or rent payments, childcare, tuition, medical bills, funeral and memorial service costs, and other time-sensitive expenses. We have also provided these families with emotional support, mental health counseling, and other non-financial assistance, as well as family support services.

The Red Cross recently began the third phase of this program (FGP3). This stage will provide beneficiaries with a final payment to bring each eligible family up to a full year’s worth of assistance. These payments will provide the remaining months of basic living expenses that are not covered by other sources of income or assistance.

To qualify for this program, Red Cross requires proof of death (e.g., death certificate or inclusion on Cable News Network or coroner's lists), proof of familial or shared living relationship, and proof of financial dependency or interdependence. Those who were seriously injured must show that, as a result of their presence at or in the immediate vicinity of the World Trade Center or the Pentagon, they suffered a verifiable and serious injury requiring hospitalization for a minimum of 24 hours during the one-week period from September 11 to September 18, 2001. In the case of FGP3, a model has been established with the help of the Urban Institute, using data from the Bureau of Labor Statistics and other sources, that sets minimum and maximum contributions in each expense category based on the location of the beneficiary and family size.

In addition to this assistance from the Family Gift Program, Supplemental Gifts will be issued to the estates of those killed and to those who were seriously injured and disabled on September 11th. Each estate will receive approximately \$45,000 to be distributed to those individuals named as residuary beneficiaries either in the will of the deceased, or, in a case where there is no will, named as beneficiaries by the Surrogate's Court or its equivalent. The exact amount of the gift will depend on the total number of estates and the amount of funds received by that point in time. Gifts will be conditioned on the requirement that they be limited to individual beneficiaries (as opposed to entities). Each seriously injured person also will receive a gift in the same amount. The process of determining eligibility and distribution of these Supplemental Gifts is underway. The Red Cross plans to notify recipients and begin distributing Supplemental Gifts in the summer of 2002.

Similarly, the Red Cross is in the process of determining eligibility for the Special Circumstances Gift Program. This program will provide assistance for extended and nontraditional family members who were financially dependent on the deceased, participated in the Family Gift Program, continue to have unmet needs, and are ineligible for the Supplemental Gift Program because they are not beneficiaries of the deceased victim's estate. The additional assistance for these families is being determined on a case-by-case basis, taking into account the individual's unmet financial needs and the level of dependence on the deceased.

In all of these programs, the criteria are the same regardless of the residence of the victim or applicant, except that some rules vary slightly for beneficiaries who are not citizens of the United States.

#### **b. Displaced Residents, Economically Impacted, Disaster Responders**

As outlined in the April 30, 2002 Quarterly Report, more than 55,000 individuals have received nearly \$273 million in economic assistance: (i) residents living south of Canal Street in Manhattan on September 11th who, as a direct result of the terrorist attacks were either displaced from their home, had their home damaged, or had access to their home disrupted; (ii) individuals working south of Canal Street who lost their jobs, were laid off, or suffered substantially reduced employment prior to January 1, 2002 as a result of the attacks; and (iii) authorized uniformed personnel (e.g., police, fire, rescue), construction

site workers, volunteers, and staff of relief and governmental agencies deployed to restricted areas in the immediate vicinity of the World Trade Center, the Pentagon, or the site in Shanksville, Pennsylvania. According to the Mitchell Plan and the first Quarterly Report of April 30, 2002, \$310 million has been allocated to provide economic assistance to these individuals.

Consistent with our traditional disaster services, the Red Cross served families displaced from their homes following the collapse of the World Trade Center towers. Aid to residents has included relocation assistance; up to three months of rent/mortgage; crisis counseling; and cleaning, storage, and air purifiers, among other things. To qualify for this assistance, displaced residents are required to show proof of residency on September 11, 2001, mortgage or rent amount, and other expenses for which reimbursement is requested. Much of this assistance is provided in kind (e.g., air purifiers provided directly to residents) or through disbursing coupons that are redeemable with participating merchants or contractors (e.g., cleaning services). This group will also be eligible for family support services on a case-by-case basis.

To meet the unique needs of those who lost their jobs or had significantly diminished earnings, the Red Cross significantly expanded its traditional disaster services to provide economic assistance to persons working south of Canal Street who lost their jobs or suffered substantially reduced employment as a result of the attacks.

The assistance provided to displaced workers has evolved over time. Initially, the Red Cross provided traditional emergency assistance to displaced workers to cover one month of basic living expenses in certain defined categories, including housing, food, and utilities. Under the Extended Maintenance Assistance Program (EMAP) created in late 2001, we provided an additional three months of assistance in these same categories. As always, this assistance was provided on stated need, regardless of the income status of the recipient. In February 2002, the Red Cross started providing a maximum amount of assistance per family member. The cutoff date for making new appointments to apply for assistance was March 8, 2002. All appointments were completed by mid-April. To qualify for this assistance, individuals have been required to provide proof of employment as of September 11, 2001 and pay stubs to substantiate loss of their income.

#### **Question #6**

**With particular regard to the Liberty Fund, please state the amount of money received in pledges, the amount collected, the amount distributed, any timetables for distribution, and plans for any remainder funds that are not distributed. Also, identify how many individuals or families have received or are expected to receive funds and the average amount for each individual or family.**

#### **Question #6 - Response**

See Attachments 1 and 2 for summaries of receipts, disbursements and future distributions of the Liberty Disaster Relief Fund. As reported in the Mitchell Plan announced on January 31, 2002, families of those killed or seriously injured in the September 11<sup>th</sup> attacks would have received an average gift of approximately \$109,000

(see response to Question # 5). Since the release of the Mitchell Plan, \$117 million more in pledges, contributions and other receipts has been received. Therefore, \$58 million more will be allocated to the families of the deceased and seriously injured on a pro rata basis consistent with the Mitchell Plan. This will increase the average gift per family to approximately \$121,000, based on the current 3,300 family gift recipients. Final payments to beneficiaries of the estates of victims are expected to be made by the end of 2002.

The Mitchell Plan originally allocated \$290 million for the approximately 55,000 displaced residents, economically affected individuals, and disaster workers who received economic assistance. Of the \$117 million in additional contributions received since announcement of the Mitchell Plan in January 2002, \$20 million more has been allocated to this category, bringing the projected average gift to approximately \$5,600.

#### **Question #7**

**The Red Cross has stated that it will hold overhead costs for the Liberty Fund at 9%. Please explain how you intend to do so.**

#### **Question #7 - Response**

Our goal under the Mitchell Plan is to hold direct support costs (e.g., costs for donation processing, acknowledgement, accounting, and auditing) to approximately 4 percent of total costs. We will do this by careful stewardship of the funds, striving to achieve all possible efficiencies in our operations and, as previously stated, using interest earned on the Liberty Disaster Relief Fund to cover direct support costs to the extent possible.

#### **Question #8**

**It is my understanding that March 8, 2002 was the Red Cross' cut-off date for applications for relief based on financial need related to the World Trade Center attacks. Considering the great amount of money raised in response to these attacks, please explain how the Red Cross arrived at that date. Also, please explain whether any exceptions will be made for individuals who request aid after that date, to include the criteria that will be used for making any such exception. Moreover, please explain what the Red Cross intends to do with any funds that it cannot distribute. Further, state whether the Red Cross has implemented similar cut-off dates for relief applicants related to the Pentagon attacks and for the 9-11 Pennsylvania plane crash, and explain the rationale for these policies.**

#### **Question #8 – Response**

It is important to note that the March 8 cutoff date did not apply to families of those who died in the attacks on the World Trade Center, the Pentagon or in the crash of United Flight 93 in Pennsylvania, displaced residents, disaster responders, or those who were seriously injured. All of these individuals are still receiving assistance from the Red Cross. The March 8 cutoff date was only applicable to those people economically affected by the attacks in New York (i.e., those working south of Canal Street as of September 11, 2001 who lost their jobs or had a significant reduction in employment before January 1, 2002 as a result of the attacks).

Under the Robert T. Stafford Disaster Relief Act, and the Federal Response Plan developed pursuant to the Act, FEMA is responsible for working with other federal agencies to provide economic assistance following a disaster. The March 8, 2002, cutoff date was chosen, in part, to encourage and enable those workers with ongoing financial need following the attacks on the World Trade Center to apply for federal disaster unemployment assistance available from FEMA. This assistance would provide 39 weeks of unemployment assistance to those impacted by the attacks.

The March 8 cutoff date was set by mutual agreement of the charities providing the largest share of financial assistance to those directly affected economically by the attacks on the World Trade Center. The charities that participated in this joint decision included the Salvation Army, Safe Horizon, the United Services Group, and the Red Cross.

A joint appeals process was established by the Red Cross, Safe Horizon, and the Salvation Army for those who could demonstrate verifiable extenuating circumstances for missing the March 8 deadline. A number of appeals have been granted under this procedure. This appeal process does not apply to those who met the deadline but were denied assistance or who questioned the amount of assistance they received.

Consistent with the Mitchell Plan, we do not anticipate having any funds leftover that are not distributed to the victims of these attacks.

#### **Question #9**

**Please describe how the Red Cross is coordinating with federal and state agencies, including any state's Attorney General's office and with other relief organizations to ensure the fair and timely distribution of charitable donations raised in response to the 9/11 attacks to their intended recipients. Please include in your response the name and address of those organizations with whom you are coordinating.**

#### **Question #9 – Response**

The Red Cross has coordinated closely with the federal government (including FEMA and the Federal Victim's Compensation Fund), various state and local government agencies in the affected states (including the Attorney General of New York, the Mayor of New York City, and New York City council members, among others), numerous other charities and relief organizations, and citizen groups (see Attachment 4 for the names and addresses of the participating agencies of the United Services Group, the names and addresses of citizen and labor organizations, and a description of our coordinating activities). Much of this coordination has taken place through daily or weekly consultations, meetings, and written interactions.

Most of the economic assistance provided to displaced residents and workers has been distributed through disaster assistance service centers staffed by representatives of the Red Cross, Safe Horizon, the Salvation Army, and other relief organizations in New York, as well as FEMA. Since the beginning of the year, the relief agencies at these joint

centers have provided virtually seamless service to the clients, using one common intake process, delivering benefits, and coordinating types of assistance.

In October 2001, the New York Attorney General and his staff expressed concerns regarding the coordination of charitable assistance. Following meetings with Attorney General Spitzer and his staff, the Red Cross worked with other charities including Safe Horizon, Salvation Army, and Catholic Charities to establish the 9/11 United Services Group in New York City (“USG”), which is now serving as the coordinating body for the various charities serving those affected by the September 11<sup>th</sup> attacks residing in New York City. Also in response to Attorney General Spitzer’s concerns, the Red Cross, along with Safe Horizon and the Salvation Army established and is supplying client data for a shared database now hosted by the USG.

We are working closely with the USG, the September 11th Fund, and other charities to jointly fund programs and services and to refer individuals to the organizations with the most relevant expertise and resources. For instance, we anticipate working with the September 11th Fund in funding a client hotline, training caseworkers, coordinating case management, providing certain mental health programs, and regularly referring clients to a USG-sponsored program for financial-planning services.

#### **Question #10**

**I have heard of several cases where the Red Cross mistakenly gave 9-11 relief money to con artists. In one case, the Red Cross gave \$272,800 to a Michigan man who invented a brother whom he said was killed in the World Trade Center attacks (see *Daily News*, April 12, 2002, Page 24). To prevent such future thefts of taxpayer donations to the Red Cross, describe how your organization is attempting to minimize waste, fraud and abuse in the relief distribution process. Please include the following information in your response:**

- a. How the Red Cross is attempting to maintain the integrity of its employees and volunteers responsible for distributing money to the 9-11 relief victims.**
- b. How the Red Cross identifies fraud committed by a disaster relief applicant or a Red Cross employee or volunteer.**
- c. The number of 9-11 disaster relief applicants who received Red Cross funds but were not eligible for those funds, and the amount of money improperly paid out in this regard.**
- d. How the Red Cross attempts to reclaim funds improperly distributed.**

#### **Question #10 – Response**

As far as we know, in cases where the Red Cross has provided assistance to so-called con artists, it has not been because of mistakes made by the organization. Indeed, in the case mentioned in your question, the individual falsified a death certificate and made false claims to the Red Cross. In short, the Red Cross as well as many other charities, insurers and government agencies have been defrauded by the illegal behavior of a small group of individuals who have seized on the opportunity created by this tragedy and

unprecedented outpouring of charitable giving by the nation. In the case of the Red Cross this represents a fraction of 1 percent of all the families that we have helped.

- a. All Red Cross employees and registered volunteers are required to sign and abide by our Code of Conduct (see Attachment 5). The Code of Conduct prohibits an employee or volunteer from using their Red Cross affiliation for personal financial gain. It also requires the employee or volunteer to operate in the best interests of the American Red Cross. In addition, employees and volunteers are given access to our intranet (CrossNet), where they can access our Misappropriation Policy and report suspected financial wrongdoing. There have been no allegations of fraud committed by Red Cross employees or volunteers in relation to Liberty Fund benefits.
- b. The Red Cross Fraud Task Force identifies and investigates allegations of fraud. The Task Force consists of representatives from the General Counsel's Office, Disaster Services, Audit Services, and the Office of Global Safety and Security, all from the national headquarters, as well as the General Counsel of the New York chapter and outside counsel. The Task Force has been alerted to fraud following September 11th in three ways: internal inquiries, inquiries by law enforcement, and public inquiries. Internal inquiries have been generated primarily by caseworkers who suspected wrongdoing with respect to a particular application. Those case files are reviewed and if appropriate, referred to law enforcement for further investigation and possible prosecution.

When the Red Cross receives a subpoena from law enforcement for a client's file, the Task Force audits that file for evidence of improper payment. In some cases, we cannot identify the alleged fraud without law-enforcement assistance. For example, in the cases where claimants submitted false affidavits in support of an application for a death certificate, the Red Cross must rely on information from prosecuting authorities to identify the fraud.

On occasion, a friend or relative of a Red Cross client, or a member of the general public, reports to us that a person is improperly receiving assistance. In those cases, we review the file and request additional information on a case-by-case basis. If appropriate, such cases are referred to local law enforcement officials for follow-up action.

As stated previously, there have been no allegations of fraud by Red Cross employees or volunteers in relation to Liberty Disaster Relief Fund benefits.

- c. As of June 1, 2002, we had identified 356 cases of suspected fraud or other improper benefits claims, a fraction of 1 percent of all the cases for which we have provided support. Until the appropriate legal authorities resolve these cases, it is impossible to calculate the total benefits that were the result of acts of fraud. However, if one assumes that every dollar of every claim now under suspicion was fraudulent, the average payment would be approximately \$7,500 per claimant.

The list of suspected fraud cases has been compiled from a variety of sources, including subpoenas, internal investigations, and third-party reports from neighbors and relatives. As we mentioned, the total paid to these claimants does not necessarily constitute actual fraud. In fact, subpoenas from district attorney's offices have been withdrawn as investigations have shown some of these cases were legitimate claimants. Some of these cases have been adjudicated before grand juries, and the American Red Cross has been awarded restitution. Determinations of actual fraud are made as investigations continue and trial cases are adjudicated. Suspected fraud cases, especially those brought to our attention by law enforcement must await judicial or other resolution before we can determine whether actual fraud has occurred.

- d. When a case is being investigated or prosecuted by law enforcement, we work with the authorities to request restitution as part of the judicial disposition of the case. Where we identify a case that does not warrant referral to law enforcement, we are, on a case-by-case basis, actively seeking reimbursement from the client.

#### **Question #11**

**Red Cross officials have stated that, in response to the rush of the American people to support its efforts with an unprecedented surge of generosity, it was enforcing stringent accounting measures at National and throughout the chapters to ensure stewardship of these funds. (Written statement for the New York State Assembly's hearing, "Charitable Funds Dedicated to the September 11, 2001 Attack on the World Trade Center," November 7, 2001.) Please describe the measures that the Red Cross has implemented in this regard, including information about internal and independent audits of National and the chapters as well as the results of the audits.**

#### **Question #11 - Response**

To assure the public that the American Red Cross has exercised the highest level of stewardship over contributions to the Liberty Disaster Relief Fund, an ongoing integrated audit process, under the supervision of the Audit Committee of the Red Cross Board of Governors, was instituted within one week of September 11<sup>th</sup>. This process includes KPMG LLP, the U.S. Army Audit Agency and the Red Cross internal audit system. Within nine days of the attack, the Red Cross dispatched KPMG auditors to make unannounced, one-day visits to a random sample of chapters to do a spot assessment of contribution processing practices and procedures. Following this review, guidance was issued to correct any inconsistencies in applying existing policies and to structure more comprehensive audit procedures implemented at more than 800 chapters (those handling the largest volume of Liberty Disaster Relief Fund contributions) in October 2001.

Chapters were then required to engage their outside accountants to perform supplemental audits on chapter financial procedures and controls for handling contributions to the Liberty Disaster Relief Fund. Reports on the results of these audits were signed by the chapter manager and chapter chairperson before submission to national headquarters. These reports were then evaluated by a team of internal Red Cross and KPMG auditors



with appropriate follow-up to ensure that there was proper stewardship of the Liberty Disaster Relief Fund.

Attachment 6 summarizes the key audit and accounting activities that took place through the February 2002 Audit Committee meeting. Attachment 7 is a copy of the October 31, 2001 KPMG audit report, which includes an unqualified opinion that noted no material weaknesses in internal controls. Attachment 8 (audit results, 800 chapters) is a summary of audit results from work performed at more than 800 chapters handling the largest volume of Liberty Fund contributions.

### **Question #12**

**Please describe any Red Cross policy about dispensing aid and disaster relief, and state whether the policy is the same for National, the regions, and the chapters. If not, explain the reason for any such difference.**

### **Question #12 – Response**

Two Red Cross Board of Governors policies govern the provision of disaster services. The first states “All Red Cross disaster relief assistance is based on the premise that disaster victims are ultimately responsible for their own recovery. Disaster relief assistance will be provided in a uniform fashion using nationwide standards as determined by Corporate Management.” (*Board of Governors Policy Manual, Part One, Section 2.6.2*). The second states “Disaster relief assistance will include emergency mass care and assistance for individuals with urgent and verified disaster-caused needs. It is provided to sustain human life, reduce the harsh physical and emotional distress that prevents victims from meeting their own basic needs, and promote the recovery of victims when such relief assistance is not available from other sources.”(2.6.3) These policies are found in the *Handbook of Corporate Governance and Board Policies* and the *Foundations of the Disaster Services Program* (ARC 3000 series).

When a disaster occurs, the local chapter of the Red Cross is expected to respond immediately and provide services for the first 72 hours. As such, the policies pertaining to the chapter’s response to a small disaster (e.g., single-family fire) may differ somewhat from those to larger disasters in which national headquarters becomes involved. However, the policies followed by chapters in smaller disasters are generally the same across the country. When the required disaster response exceeds the capability or resources of the chapter, the state lead chapter for disaster services is responsible for coordinating additional support from surrounding chapters. If the level of the disaster is such that it is beyond the resources within the state, Disaster Services at national headquarters becomes responsible for the disaster relief operation and provides trained volunteers, staff, equipment, and other support. Of course, a disaster can be declared a national disaster well before 72 hours have passed.

The procedures and regulations contained in *Single Family Disasters* describes how chapters are required to respond to single family disasters, including the level of assistance chapters are required to provide. The minimum level of assistance that a chapter is expected to provide to single-family disaster victims is intended to meet basic

needs: food, clothing, toilet articles, shelter, and critical medications. Chapters are expected to work toward providing the full range of disaster assistance required by Disaster Services regulations and procedures. These rules do not directly apply to Red Cross regional units because they are not direct service providers but, rather, are an administrative arm of the organization concerned with chapter compliance and chartering.

The full range of individual emergency assistance provided by disaster services (beyond the level of a single-family fire) is described in *Family Service-Emergency Assistance to Families*. The Red Cross considers the emotional, physical, and material needs created or aggravated by the disaster, and provides assistance for those items that are essential to continuing recovery. The principles of assistance include the following:

- The Red Cross represents all the people of the United States and extends aid in an equitable and impartial manner, without regard to economic status or racial, religious, political, ethnic, or other affiliation.
- All Red Cross assistance is an outright grant.
- All assistance is provided in a manner that will not impose any unnecessary hardship on the individual or family. Assistance is based on addressing disaster-caused and disaster-aggravated needs according to the following criteria: resuming more normal living, verified need, immediate need, identification and disaster-caused damage.

Assistance is provided in a standardized manner. This means that each individual or family is provided the means to obtain relief supplies, items of assistance and/or services that are similar in quantity, quality and type with variations only on the basis of need, family composition, or unusual needs.

***Emergency assistance is designed not to replace what families lost but to provide what families need as a result of the disaster.*** Assistance may be provided by referral to an agency or organization offering the items a client needs, by providing the actual item, or providing the financial means to purchase the items. Follow-up with the client and/or referring agency is done to assure that the client's needs have been met or to determine whether the client may need further Red Cross assistance.

Chapters and national disaster relief operations follow the principle of standardized assistance. When providing financial assistance, the Standardized Emergency Assistance price list is used. This price list notes the most common items needed by clients to begin their recovery and the prices for obtaining them. Only national headquarters may make changes to the price list. The Red Cross recognizes that distinctions from state to state, and in many areas, from community to community will result in variances in prices of items and in what items may be needed by affected individuals. Therefore, chapters may conduct and submit a merchant survey of local prices and items of assistance. Local price lists are approved at national headquarters for use in their chapter's jurisdiction. The Red Cross generally provides disaster victims with disbursing orders (i.e., vouchers) that can be spent in their local community to purchase food, clothing, and basic furniture. In many cases, by enabling people to spend these funds in the affected area, we are also helping the community get back on its feet economically. Donated items and other local

resources are often used in lieu of Red Cross purchased items. Because these resources can be quickly exhausted, local resources are used primarily for smaller operations, such as a single-family disaster.

### **Question #13**

**Please identify any Red Cross policy relating to the amount of money to use for a particular disaster out of previously available funds versus the amount to use out of funds raised through an appeal relating to a specific disaster. If there is no such policy, please state whether decisions concerning the use of funds are made at the national, regional, or chapter level, and explain why.**

### **Question #13 – Response**

The American Red Cross has no policy that restricts the amount of money it will use to respond to the needs of those affected by disaster.

The American Red Cross acts upon two premises in delivering disaster assistance. The first premise is that disaster assistance must be provided to those seeking it. (See Sections 2.6.2 and 2.6.3 of the *Board of Governors Policy Manual* referenced in our response to Question #12.) Assistance is to be provided in a uniform fashion and in conformity with defined standards as detailed above. If funds are not available from local sources, the fund maintained by national headquarters in the Disaster Relief Fund will be used to cover the expense. Section 4.3 of the *Board of Governors Policy Manual* reflects the organization's disaster fund-raising policies and incorporates the recently adopted changes announced as Donor DIRECT. It states:

- 4.3.1** There shall be an American Red Cross Disaster Relief Fund maintained at National Headquarters and managed by Corporate Management. It shall be used only to provide and support disaster relief services for victims of disasters. All funds raised in connection with a major disaster, but not used in that operation shall be retained in the American Red Cross Disaster Relief Fund.
- 4.3.2** As part of its mission, the American Red Cross responds to the needs of disaster victims. In support of that responsibility, contributions are solicited for the American Red Cross Disaster Relief Fund. However, the American Red Cross has, and will continue to honor designations to specific disasters.
- 4.3.3** In its disaster fundraising, the American Red Cross shall take steps to ensure that all donors to the Disaster Relief Fund understand the organization maintains a national disaster fund. All steps practicable shall be taken to confirm and acknowledge the intent of donors in all channels through which they contribute.

The following guidelines provide further instruction on carrying out the policy:

- (a) The following language must be used on solicitation materials to encourage donations to the relief fund:

“You can help the victims of [this disaster] and thousands of other disasters across the country each year by making a financial gift to the American Red Cross Disaster Relief Fund, which enables the Red Cross to provide shelter, food, counseling and other assistance to those in need.”

The same language should be used in media interviews and in responding to public inquiries. Undesignated contributions are encouraged. (Refer to guidelines established by Corporate Management on the appropriate use of the Disaster Fund Raising language.)

- (b) Every effort should be made to ensure that fundraising solicitations clearly explain the purpose of the Disaster Relief Fund and how funds will be used.
- (c) Donor designation contributions will be used first when funding disaster relief operations.
- (d) If designated contributions for a specific disaster relief operations exceed the costs of standard American Red Cross relief services for that operation, the remaining designated contributions will be used to meet other disaster related needs and may provide funding for disaster preparedness, future disaster relief and recovery efforts in the affected areas.
- (e) When Corporate Management determines that contributions and pledges raised will be sufficient to cover the cost of the Red Cross response to a specific disaster, a transition plan will be implemented. This fundraising plan will acknowledge that funds raised are anticipated to cover current costs and encourage anyone wishing to contribute to give to the Disaster Relief Fund and the local chapter. (Refer to Corporate Management guidelines.)
- (f) Contributions to the American Red Cross Disaster Relief Fund, as well as those designated by donors for

specific disasters, must be accounted for and reported by chapters and the national sector.

- (g) Contributions received by chapters for disaster relief, either designated by donors for a specific disaster or to the American Red Cross Disaster Relief Fund during the course of a disaster campaign must be remitted promptly to the national sector. (Refer to Corporate Management guidelines on remitting disaster funds.)

The second premise is that the American Red Cross has, and always will, respect the donor's intentions. Sections 4.1.2 and 4.1.3 of the *Board of Governors Policy Manual*, Part One states:

- 4.1.2 The American Red Cross shall honor restrictions placed by the donor upon donated funds, real property, goods and services.
- 4.1.3 Restrictions on donations not consistent with the Mission, powers and purposes of the Corporation shall not be accepted and shall be returned where practicable.

Therefore, immediate assistance is given to those in need and without initial concern for the source of funding. Should a disaster fund-raising campaign generate funds greater than the costs of immediate assistance, long-term and other disaster-related needs are covered and any remaining funds are retained in the Disaster Relief Fund and earmarked for that area for future disasters or disaster preparedness for that community (see reference to Section 4.3.3 of the *Board of Governors Policy Manual* above).

#### **Question #14**

**As to the money raised for a specific disaster, please state whether any amounts not spent by the Red Cross on that disaster are reserved for future disasters and whether any amounts are reserved for administrative expenses. Also, identify any Red Cross policy relating thereto. If there is no such policy, state whether these decisions are made at the national, regional or chapter level and explain why.**

#### **Question #14 – Response**

During times of disaster the American Red Cross provides emergency assistance to disaster victims regardless of the type of disaster, the location of the disaster, the community's ability to financially support relief services, or the amount of donations that ultimately are received from the public.

Monies that are designated for a specific disaster are always used for that disaster. If designated funds remain after all disaster-caused needs have been met, they are committed for future disaster preparedness, relief, and recovery efforts in that area. Undesignated contributions are placed in the Disaster Relief Fund to be used wherever

needed to provide disaster relief. In no case are any of these contributions used for general overhead of the organization.

*Board of Governors Policy Manual, Part One, Section 4.3.3 (d) states:*

If designated contributions for a specific disaster relief operation exceed the costs of standard American Red Cross relief services for that operation, the remaining designated contributions will be used to meet other disaster related needs and may provide funding for disaster preparedness, future disaster relief and recovery efforts in the affected areas.

**Question #15**

**After fires devastated parts of San Diego in 2001, the Red Cross chapter raised more than \$400,000 for the victims but failed to distribute relief to them for many months thereafter. It is my understanding that outside auditors hired by National found that the chapter had failed to follow its own disaster relief plan, that services were not organized to ensure that victims' needs were adequately met, that press releases were misleading to donors, and that more than \$112,000 of the money donated for the victims were improperly spent on items such as a telephone system upgrade for the local Red Cross office. (See CBS, "60 Minutes", March 10, 2002). Please explain what steps, if any, were taken by National in response to these findings to include any change in policy. Also, please state whether National instituted any disciplinary action against the individuals in the San Diego chapter who were responsible for the foregoing actions or for the release of an inaccurate and edited version of a national audit. If so, describe those actions. If not, explain why not.**

**Question #15**

In August 2001, the American Red Cross Audit Services department in conjunction with the Disaster Services department conducted a special on-site review at the San Diego/Imperial Counties Chapter to review the chapter's response to the Alpine/Viejas wildfires that began on January 3, 2001.

On September 12, 2001, the General Auditor of the American Red Cross issued a final report on the special review to the Executive Vice President, Chapter Services Network. This report outlined 14 specific findings and recommendations. Specifically, the chapter was required to submit a written plan to the Disaster Services and Chapter Services departments at national headquarters on how it would use any remaining funds after all of the fire victims cases are closed. The chapter has submitted a proposal, and it will be reviewed once all client cases are closed and direct financial assistance has been provided. In accordance with national policy, additional case assistance for the fire victims beyond emergency assistance is being handled and approved by Disaster Services at national headquarters. Further, in January 2002 national headquarters performed a full Disaster Services Program Review at the chapter to enhance and improve the chapter's Disaster Services Program and operations.

In November 2001, Red Cross national headquarters and the Chapter held a joint news conference at which the Chapter acknowledged its errors and began an intensified process to address the unmet needs of the victims of the fire.

In March 2002, the Finance department issued a new policy entitled “Chapter Accounted and Financed Disaster Relief Operations” which provides specific guidance to chapters on expenditures that can be charged to disaster contributions for locally accounted and financed disaster events (see Attachment 9). Also, on June 5, 2002, the American Red Cross announced its new disaster fund-raising policies, Donor DIRECT. On June 7, 2002, national headquarters made available to chapters guidelines on the correct language to use in disaster relief appeals and practices to follow when donations exceed costs in relief operations (see also our response to question #17 on our new fund-raising policies).

As you may be aware, nearly 18 months after the fires, the Chapter has failed to restore its credibility in the community. As a result, national headquarters has removed the Chapter Executive (see the letters from James Krueger, Executive Vice President for the Chapter Services Network to Dodie Rotherham, dated May 29, 2002, and June 11 (Attachment 10). These letters outline a number of concerns related to the San Diego Chapter’s response to these fires and ultimately the decision to remove Ms. Rotherham. In addition, the Board of Governors recently voted to remove the San Diego Board of Directors, having reached a determination that it also was unable to provide the effective leadership required for the Chapter (see Attachment 10 for letter from Chairman David McLaughlin to the Chairman of the Board of the San Diego and Imperial Counties Chapter).

#### **Question #16**

**In addition to the Liberty Fund established in response to the 9-11 attacks, please state whether the Red Cross has created a separate, segregated account to hold and disburse funds in response to any other disaster. If so, please identify those funds and explain why they were created. Also, please identify any criteria used by the Red Cross for creating such a fund and for the use of such funds. Further, state whether the Red Cross has received any complaints or inquiries regarding the use of any such funds and explain the nature of the complaints.**

#### **Question #16 - Response**

The Liberty Disaster Relief Fund was the first segregated fund ever established for a specific disaster event. *Board of Governors Policy Manual*, Part One, Section 3.1.2 requires Board approval for separate funds as follows:

“The establishment of any special purpose fund to which designated or restricted funds will be placed requires the prior approval of the Board of Governors.”

In all other instances, a disaster operation is accounted for separately as a subset of the Disaster Relief Fund. This allows for separate accounting for donor designated contributions and related expenses within the fund. Please note that a substantial part of the motivation for adopting Donor DIRECT was to ensure that future donors to the

Disaster Relief Fund understand that, unless they designate their donation, their contributions will be used to aid the Red Cross in responding to other disasters.

#### **Question #17**

**Please describe the Red Cross policy for ascertaining donor intent. For example, Red Cross has recently added language to its fund-raising appeals that donations would be used for "this and other disasters." Specifically, please explain how the Red Cross determines that a donor who gave money in the aftermath of a disaster, and particularly in response to a local fund-raising appeal, intends for the Red Cross to use the money for "other disasters", and state whether these determinations are made at the national, regional, or chapter level.**

#### **Question #17 - Response**

Donors can make designated or undesignated charitable contributions to the Disaster Relief Fund. In the case of designated donations for specific disasters, contributions are remitted to the Disaster Relief Fund but are restricted so that those contributions are used only for the disaster specified by the donor. Undesignated donations are remitted to the Disaster Relief Fund and are used by the Red Cross to provide disaster services wherever needed.

If designated contributions for a specific disaster relief operation exceed the costs of standard American Red Cross relief services for that operation, the Red Cross will assist in meeting other disaster-related needs. These other needs would include, among others, providing disaster preparedness information to at-risk populations thus reducing the severity of loss or cost of future episodic disasters; training volunteers for disaster response in disaster-prone areas; investing in emergency vehicles, preparedness and response equipment; supplies to better respond to disasters in the geographic area for which funds were designated; and providing resources to assist victims in accessing more long-term recovery services. Funding may be provided for disaster preparedness, future disaster relief and recovery efforts in the affected areas (see language from section 4.3.2 (c) of the *Board of Governors Policy Manual* in our response to Question #13).

From 1990 to May 2002, the Red Cross used the following specific language on solicitation materials when obtaining donations from the American public:

"You can help the victims of \_\_\_\_\_ and other disasters by contributing to the American Red Cross Disaster Relief Fund." (Red Cross *Board of Governors Policy Manual*, Part One, Section 4.3.2 (e)):

On May 10, 2002, the Board of Governors of the American Red Cross changed its policy governing the solicitation of gifts to support disaster relief operations. In announcing this change on June 5, 2002, the Red Cross is expanding efforts to be transparent and educate donors about the American Red Cross Disaster Relief Fund and is instituting a new system of affirmative confirmation and acknowledgement to ensure donations are directed as intended.



The changes clarify in more detail what services are provided in a relief operation. These changes will be used nationwide by July 31, 2002. The language to be used across all Disaster Relief Fund solicitations including advertising, direct mailings, Web sites, telemarketing and all public communications will now include the following:

“You can help the victims of [this disaster] and thousands of other disasters across the country each year by making a financial gift to the American Red Cross Disaster Relief Fund, which enables the Red Cross to provide shelter, food, counseling and other assistance to those in need.” (see *Board of Governors Policy Manual*, Part One, Section 4.3.3 (a) above).

Donors who make undesignated contributions to the Disaster Relief Fund will be asked to confirm that they understand the purpose for which their donations will be used *before* their donations are accepted. The new policy also requires that the American Red Cross and its service units discontinue fund raising when sufficient funds have been raised to cover the anticipated costs of a disaster relief operation and that the public be notified accordingly with prescribed language. *Board of Governors Policy Manual*, Part One Section 4.3.3 (e) states

“When Corporate Management determines that contributions and pledges raised will be sufficient to cover the cost of the Red Cross response to a specific disaster, a transition plan will be implemented. This fundraising plan will acknowledge that funds raised are anticipated to cover current costs and encourage anyone wishing to contribute to give to the Disaster Relief Fund and the local chapter. (Refer to Corporate Management guidelines.)”

Several charitable watchdog groups were briefed on our new donor initiative (Donor DIRECT), including the Better Business Bureau, Independent Sector, Guidestar, Association of Professional Fundraisers and others. Their words of support are posted on our Web site at [www.redcross.org/press/disaster/ds\\_pr/020605dsfundquotes.html](http://www.redcross.org/press/disaster/ds_pr/020605dsfundquotes.html).

Verifying donor intent, particularly in a mass appeal during the moment of an episodic disaster, is a challenge for all nonprofit organizations. The American Red Cross has taken additional steps to verify and confirm donor intent in its revised policies. First, in the solicitation piece the donor will have the opportunity to signify consent by either checking a box, or signing a statement that confirms understanding of the purpose for which the gift will be used. In the case of a telephone solicitation, the same verification query of the donor will be made. Second, the donor will be sent a gift acknowledgement that restates how the donation will be used. In addition, the donor will be provided a toll-free number to call at the American Red Cross should the donor have questions about the use of the gift as described in the gift acknowledgement. ***As has always been our practice, a donor’s wish to restrict a gift for a particular purpose will be honored.***

### **Question #18**

**Please explain how donors who contribute aid in connection with a disaster can find out how much money was raised in their area and how the Red Cross used their donated funds.**

### **Question #18 – Response**

The Red Cross assigns a Disaster Relief Fund tracking number to each national disaster to which we respond (e.g., DR###). All contributions received toward this operation and expenses incurred to provide relief services in the impact area are assigned to this account. All such accounts are contained within the Disaster Relief Fund, since often there are several disaster relief operations running concurrently. Donors and the general public at any time can inquire through the 1-866-GET-INFO toll-free number what total amount of funds have been received to date and how they have been expended for a specific disaster.

In addition, the Red Cross uses several communication vehicles to inform the public of how much has been raised and spent. Press releases are issued and the Red Cross Web site ([www.redcross.org](http://www.redcross.org)) is updated regularly during major, national disasters to reflect monies raised and spent. Major national disasters are those considered Level V, requiring more than \$2.5 million to fund disaster response (see response to Question #24 for greater detail).

If donors have questions about the use of donated funds, they may contact their local Red Cross chapter directly, they can visit our Web site, or they may call 1-866-GET-INFO. *As has always been our practice, a donor's wish to restrict a gift for a particular purpose will always be honored.*

On May 10, 2002, the Board of Governors revised its disaster solicitation policy to clarify in more detail what services are provided in a relief operation and to further ensure donor intent is ascertained and followed. Changes were also made regarding the acknowledgement of contributions. As they have previously, donors will receive an acknowledgement letter for every financial gift they make to the American Red Cross.

At a June 5, 2002 press conference, American Red Cross leadership announced a series of bold changes in its disaster fund-raising practices based on the Board of Governors action of May 10. The national initiative, called Donor DIRECT, expands efforts to educate donors about the American Red Cross Disaster Relief Fund and institutes a new system of affirmative confirmation and acknowledgement to ensure donations are directed as intended.

The Donor DIRECT program made four important changes in Red Cross fund-raising practices:

- The Red Cross will use specific language consistently across all Disaster Relief Fund solicitations including advertising, direct mailings, Web sites, telemarketing and all public communications. All solicitations will now include the following language:

*“You can help the victims of [this disaster] and thousands of other disasters across the country each year by making a financial gift to the American Red Cross Disaster Relief Fund, which enables the Red Cross to provide shelter, food, counseling and other assistance to those in need.”*

- Donors who make contributions to the Disaster Relief Fund through Red Cross solicitation channels will be asked to confirm that they understand the purpose for which their donations will be used *before* their donations are accepted.
- Donors will receive an acknowledgement after their contributions have been received that will *reconfirm* their intent and the purposes for which their contributions will be used. These acknowledgements also will instruct donors on what to do if they have any questions about how their contributions will be used.
- The Red Cross will trigger a fund-raising transition policy in any disaster where it appears that contributions made around the time of the disaster may exceed the cost of the anticipated disaster assistance the organization customarily provides. The transition policy will explicitly inform potential donors that enough money has been received for the current disaster and encourage them to give to the local chapter or to the Disaster Relief Fund to support the victims of future disasters. This policy is intended to avoid a situation where too much money is raised around a disaster which, in turn, creates an expectation that more money will be spent on its victims than is normally the case under standard Red Cross protocols.

We have begun implementing these changes on current disasters (for example, the flooding in Iowa) and donors and the public can expect to see the changes embodied in Donor DIRECT fully implemented throughout the organization by July 31, 2002.

#### **Question #19**

**Please explain the Red Cross procedure for responding to donor complaints at the national, regional, and chapter level. Also, please state whether a region or a chapter is required to report to National when it receives complaints. Further, for the past five years, please state the number of complaints related to the Red Cross use of donations raised during a specific fund-raising appeal received against National, a region or a chapter, and describe the nature of the complaint and how National, the region or the chapter responded to same.**

#### **Question #19 – Response**

Red Cross chapters are responsible for responding to questions and concerns raised by donors about funds donated to their local units, while national headquarters handles questions and concerns posed at the national level. Corporate management encourages chapters to contact national headquarters should they need assistance in responding to a specific donor request or support regarding comments or concerns raised by the public. Experience has shown that chapter representatives regularly initiate contact with headquarters to request such assistance.

The Red Cross maintains an Inquiry Unit that supports the needs of the public in addition to Red Cross field units. This unit has a specialized software system that allows the organization to respond to and track each inquiry to ensure an appropriate and efficient response. Immediately following the September 11th attacks, the majority of fund raising inquiries concerned how to donate or were requests for donor acknowledgements. From October 15, 2001 through May 31, 2002, the Red Cross received more than 71,000 incoming messages. Eight percent of these inquiries were categorized as complaints.

Red Cross national headquarters operates a toll-free public information line (1-866-GET-INFO) by which donors and the general public may pose any questions regarding Red Cross service delivery or fund-raising matters. National headquarters has also established a customer service staff position dedicated to handling donor questions, including complaints. The most common function of this staff person is to issue duplicate receipts to those who have lost their original acknowledgements, but this person also responds to questions and concerns raised by donors about gift designation and use.

The American Red Cross has also issued detailed policies for its chapters on processing and remitting contributions and has developed a series of systems, including internal audits, to track and verify how donations are handled. This information is made available to each unit through the organization's secure internal Web site and is reinforced by electronic mail and other media. Issues relating to compliance with these policies and audit procedures are initially addressed at the regional level and elevated to higher organizational levels as required. As discussed in greater detail below in response to Question #20, the Red Cross complies fully with donor requests to re-apply funds to a different use when such requests are raised at either the chapter or the national level.

#### **Question #20**

**Please explain the recourse for a donor who disagrees with how National, a region or a chapter uses his or her donation. State whether this answer is different if the donor alleges that he or she was misled by Red Cross advertising, or that there was evidence of misuse of charitable resources, fraud or corporate waste. Further, identify the appropriate federal, state or local entity with jurisdiction to follow up on these complaints.**

#### **Question #20 – Response**

The Red Cross is committed to complying with donors' requests to have donations used for such programs or purposes as donors may designate. As discussed more fully in response to Question #17, the Red Cross is also committed to ensuring that its solicitations clarify the purposes to which funds raised will be put. In the event that donors disagree with how funds are used or change their minds about how they want funds applied, they simply need to inform us and we will comply with their direction. The expression of a desire to change the designation is all that is necessary to make such a change. Red Cross staff do not request that the donor state the reason why the change is being made.

Although donors generally contact the entity to which the gift was made to convey changes in fund designation (chapters for chapter gifts, national headquarters for national gifts), if a donor contacts a chapter about a gift that was sent to national headquarters, the chapter informs national headquarters and the change is made. The same process holds for contact made with national headquarters for gifts made to the chapter. If national headquarters hears of an unresolved problem with a gift made at the chapter level, national headquarters can step in to enforce the necessary change and has done so in the past.

In addition, the American Red Cross is chartered by Congress, which has authority to exercise oversight over the Red Cross through various congressional committees. The Red Cross is responsive to informal and formal inquiries (such as this one) made by Congressional committees and members of Congress regarding its operations. In addition, on occasion a donor may raise a concern with a state or local entity about the Red Cross, or a state or local agency will request information about Red Cross operations in a particular jurisdiction. The Red Cross is responsive to such requests for information and follows up on and investigates concerns raised by such agencies expeditiously.

**Question #21:**

**Please state whether the Red Cross received any money from other Red Cross or Red Crescent Societies in response to the 9-11 attacks and, if so, state the amount and whether any such amount was made in cash. Also, please describe whether and how these gifts were handled in compliance with the "Principles and Rules for Red Cross' Disaster Relief." Further, state whether the Red Cross received any inquiries or complaints from other Red Cross or Red Crescent Societies regarding the use of any of these funds and, if so, describe the nature of any such complaint or inquiry.**

**Question #21 - Response:**

The American Red Cross has received more than \$34 million in support from more than 35 national societies to assist those affected by the September 11<sup>th</sup> attacks (see Attachment 11). This unprecedented support represents gifts provided through the generous donations by citizens of those countries. The vast majority of these gifts were made via wire transfer, and all were designated for the Liberty Relief Fund.

We have not received any informal or formal complaints or concerns about these gifts. We have received and responded to inquiries from the Japanese Red Cross, Canadian Red Cross, British Red Cross, Swiss Red Cross and others for general information about how the funds are being used. Additionally, we have received and answered requests for information about our recent change in leadership and the difference between the Liberty Relief Fund and the Disaster Relief Fund.

The *Principles and Rules for Red Cross' Disaster Relief* is a document of the International Federation of Red Cross and Red Crescent Societies (Federation) and applies to accounting and auditing for joint or separate operations administered by the Federation and/or International Committee of the Red Cross (ICRC). The disaster operations provided following the September 11<sup>th</sup> attacks were directed by the American

Red Cross, without operational support by the Federation or the ICRC. While the Federation document is not germane to this operation, the American Red Cross policy with regard to the Liberty Disaster Relief Fund has been to use the entirety of these funds to provide assistance to people directly affected by the terrorist attacks.

**Question #22:**

**Similarly, please state whether the Red Cross has received aid from other Red Cross or Red Crescent Societies in response to any other disaster. If so, please discuss on what bases these funds received, how they were handled, and if there were any complaints or inquiries regarding their use.**

**Question #22 - Response:**

Prior to September 11<sup>th</sup>, the American Red Cross had received gifts from other national societies in response to other disasters such as the Oklahoma City bombing. These gifts were applied in accordance with the wishes of the donors, consistent with policies established by the Board of Governors. We have not received any complaints from other national societies regarding the use of such donations.

**Question #23**

**Please describe the Red Cross organizational structure and the relationship between National, the regions, and the chapters. Please include the following information in your response:**

- a. Whether there is a hierarchical chain of command.**
- b. Whether the Red Cross policies and procedures are standard throughout the organization or whether they are established at the regional or chapter level. If the latter, please identify the policies and procedures set by National and those set by the regions or chapters.**
- c. The types of decisions (i.e., day-to-day administration or personnel issues) made at the national level relating to the regions or chapters, and the types of decisions made at the regional or chapter level.**

**Question #23 - Responses**

- a. Per the federal Congressional Charter (Title 36 United States Code, Section 300101 et.seq. [enacted by Congress January 5, 1905, as amended]), the American National Red Cross is a single corporation. The Congressional Charter further establishes the appointment, terms, and authorities of a 50-person corporate governing body, the Board of Governors.

The Board of Governors, under the Charter, is responsible for the establishment of corporate regulations, policies, and procedures, including procedures for granting and revoking charters to local chapters, which are units of the single corporation, not separate legal entities. Corporate Bylaws stipulate that the Board of Governors maintains the sole authority to grant or revoke local charters under certain specific conditions. Corporate Bylaws also describe the democratic election principles and procedures by which each local chapter's governing body, its Board of Directors, is to function. Through the regulations, policies, and

procedures issued by the national Board of Governors, as well as its power to revoke chapter charters, the local chapters are directly accountable to the Board of Governors for operations within the chartered jurisdiction. The Board of Governors also has the ability to remove local chapter boards for noncompliance with corporate policies.

In addition to chapters, the Board of Governors has commissioned four chapter service regions to ensure chapters' compliance with corporate policies and regulations within a designated geographical area. Chapter service regions are also responsible for the rechartering process that ensures all chapters are meeting and maintaining minimum corporate requirements. (Rechartering is discussed in further detail in 24.c below.) The Board of Governors has also authorized the regions to establish State Service Councils, which are responsible for the delivery of Red Cross services to persons living in areas not served by a chartered chapter. These councils have no direct authority over the chapters within the state.

In summary, the principal Red Cross hierarchical accountabilities are:

- The Board of Governors to the United States Congress and the American people for operations consistent with the Congressional Charter, and
- The local chapter Board of Directors to the Board of Governors for operations *“pursuant to the rules, regulations, and policies of the Corporation.”*

- b. The Congressional Charter states that the Board of Governors holds *“all powers of government, direction, and management of the corporation.”* The Board of Governors has the sole authority to establish, amend, edit and revoke Red Cross policies and procedures that are standard throughout the organization. The Corporation's governing documents, relevant for all sectors of the Red Cross, include the Congressional Charter; Corporate Bylaws; the Board of Governors Policy Manual, Parts One and Two; and various Board of Governors procedures related to programs, services, administrative functions, chapter governance, financial management, solicitation, and utilization of all corporate funds and assets.

The Board of Governors has stipulated standard chapter bylaws to be adopted by each chartered chapter. These bylaws include provisions regarding the purposes, responsibilities, governing functions, procedural requirements, and financial regulations related to the local chapter. Any variation from or addition to the standard chapter bylaws must be pre-approved in writing by the Office of General Counsel at national headquarters. In support of corporate policies and the chapter bylaws, chapter boards are authorized and expected to establish day-to-day operational procedures for their chapters.

- c. Chapters are expected to establish day-to-day operational procedures necessary to implement corporate policies and requirements. Chapter boards oversee the implementation of the programs and financial management of the chapter, usually through a paid chapter executive or manager and support staff.

The day-to-day functioning of any chapter has been delegated by the Board of Governors directly to the chapter's Board of Directors through the issuance of the chapter's charter. National and regional resources are, however, available to chapters and allocated to educate, train, guide, consult, and advise local chapters regarding national requirements and 'best practice' examples of programs and services.

#### **Question #24**

**Please answer the following questions concerning the Red Cross chapters:**

- a. State whether National provides money to the chapter for local emergencies, or alternatively, whether the chapters are responsible for their own fund-raising. If National provides money to a chapter for a local disaster, please describe the nature of the chapter's accountability to National regarding the use of the funds. Also, when a chapter raises money in its area, state whether any of that money is redirected to National, a region or to another chapter.**
- b. Describe the Red Cross procedure for sanctioning any chapter, to include what action by a chapter will lead to a sanction by National and the type of sanction.**
- c. State whether the Red Cross' Board of Governors has revoked the charter of a chapter. If so, please describe the circumstances for the revocation and state whether the Red Cross disciplined any chapter officer or employee related to the revocation.**
- d. State whether each chapter has its own charter and bylaws and, if so, whether they are approved by National.**

#### **Question #24 - Response**

- a. During times of disaster the American Red Cross provides emergency assistance to disaster victims regardless of the type of disaster, the location of the disaster, the community's ability to financially support relief services, or the amount of donations that ultimately are received from the public. Disasters are funded in two ways. Smaller disasters are funded by local chapters. Each chapter is required to determine the types and extent of recurring disasters that can be expected in its jurisdiction in any given year and to make adequate budgetary provision for relief operations and administration. The chapters are responsible for independently raising enough funds to meet these anticipated needs. Most local disasters fall into the Level I category below. For disasters requiring greater resources (non-reoccurring significant disasters), the nationwide Disaster Relief Fund enables the Red Cross to ensure service delivery regardless of the local chapter's ability to fund that disaster. Generally, Level II and higher disaster relief operations are funded by the Disaster Relief Fund. Several larger chapters have the ability to fund relief operations at Level II or Level III costs, but generally, local chapters fund local disasters in the Level I category. In addition, the Disaster Relief Fund may be used to support local relief operations in accordance with the National Disaster Reimbursement Program described below.



The financial impact on the Red Cross of a disaster response is expressed as the level of the disaster based on the anticipated cost of the response, regardless of the source of funding.

- Level I: costs less than \$10,000
- Level II: costs \$10,000 or more but less than \$50,000
- Level III: costs \$50,000 or more but less than \$250,000
- Level IV: costs \$250,000 or more but less than \$2.5 million
- Level V: costs \$2.5 million or more

To ensure that victims receive the assistance they need, national headquarters implemented the National Disaster Reimbursement Program (NDRP) to reimburse chapters from the Disaster Relief Fund when:

- Local disaster expenses exceed the resources of the chapter, or
- A chapter is establishing or building an adequate disaster relief budget for recurrent disasters affecting its communities.

Chapters seeking such funding must follow the regulations and procedures contained in the NDRP, including the provision of a five-year expenditure history and disaster budget plan. NDRP reimbursement for recurrent local disasters is limited to 50 percent of the total cost of each disaster operation. This means that 50 percent of the total cost of each disaster operation must be borne by the chapter, either from fund raising for the disaster or from other chapter funds. Chapters, therefore, must be prepared to raise funds locally to offset the limits of the NDRP.

Chapters are accountable to national headquarters regarding use of funds when national headquarters provides some or all of these funds through the submission of a Disaster Relief Report (Form 903) when seeking reimbursement from national headquarters. A chapter with a previously approved five-year expenditure history, chapter disaster budget plan, and local price list may seek reimbursement by submitting a Form 903.

The Form 903 is a summary of the activities of a disaster relief operation and is used to reconcile funds spent on a particular disaster operation. It captures details about the response to the disaster, the actual expenditures incurred by the chapter, and the funds available and used in that response. A Form 903 must be prepared for each disaster incident and submitted in accordance with the established filing schedule.

Based on the information in a chapter's approved budget plan, national headquarters will determine if the request in a Form 903 qualifies for reimbursement.

Contributions received by chapters from local fund raising for Level I operations (local disasters) are applied to that operation. If fund raising exceeds the cost of a

particular disaster, the remaining funds are restricted for use in future local disasters.

Contributions received by chapters for nationally funded disaster relief operations are forwarded to national headquarters in accordance with current financial procedures. These contributions are deposited into the Disaster Relief Fund. Restricted contributions are used consistent with donor intent.

- b. Corporate Bylaws and Board of Governors policies describe the general conditions, procedures, and sanctions available to ensure chapter compliance with corporate policies. These procedures generally provide two levels of compliance authority:
- Board of Governors authority: The Board reserves to itself the authority to level the following sanctions against a chapter:
    - Removing of a chapter chairman and/or members of the board of a chartered unit;
    - Requiring a local board to take any action, or refraining from taking any action;
    - Revoking voting privileges during the corporation's annual national convention; and/or
    - Dechartering, rechartering, or changing the jurisdiction of a chartered unit.

If the President of the Red Cross determines that urgent, irreparable, or material harm to the Red Cross, or harm to any member of the American public, will result if a chapter's apparent practices are not ceased immediately, the President, with the concurrence of specific Board of Governors officers, has the authority to impose board-level sanctions for a period not to exceed 90 days. There are policies that prescribe a potential inquiry and hearing opportunity for the chapter with a Committee of the Board of Governors within the 90-day period. At the conclusion of its review, the Committee is responsible for submitting any recommendations to the Board of Governors regarding the status of the specific chapter.

- Corporate Management authority: For a less egregious suspected or verified violation of corporate requirements, management at national headquarters and in the region first attempt to secure compliance informally and in conjunction with the chapter's officers and management. If these informal attempts are unsuccessful, the region is directed to provide the chapter with a written statement that specifies the policy violation and the corrective action needed by the chapter within 30 days of receiving the written statement. Policies further describe the chapter's response options and, if the chapter does not respond within the prescribed time, the possible outcomes of the non-compliance. Sanctions delegated to the region by the Board of Governors include, but are not limited to:
  - Removing corporate support and resources previously allocated to the chapter;
  - Withholding appointments to state and national activities and groups;
  - Reassigning of chapter functions to other chartered units; and

- Terminating the chapter manager with the support of Corporate Management.
- b. In 1993 the Board of Governors implemented the rechartering process, a nationwide quality control system for Red Cross service provision and stewardship. Rechartering linked the retention of a chapter charter to the local chapter's achievement and maintenance of 32 delivery, governance, and management standards.

In June 1993, there were 2,619 local Red Cross chapters, each operating per a charter granted by the Board of Governors. In 1998, at the conclusion of Rechartering-Cycle I, there were 1,315 chapters. Through the Rechartering-Cycle I process, approximately 1,300 local chapter charters were voluntarily returned or forfeited back to the corporation. A vast majority of these 1,300 charters were granted to local boards by the Board of Governors prior to 1920 and by the 1990s were not held by functioning service-delivery units.

To continue quality control efforts, Rechartering-Cycle II began in 1998 and included one additional requirement for chapters to maintain their chartered status. Compared to 1,315 chapters in 1998, as of May 31, 2002, there were 1,007 chartered chapters throughout the United States. The 308 charters forfeited since 1998 reflect the decisions of 212 local chapter boards to voluntarily dissolve their chapter due to their inability to meet and maintain standards, 91 boards who voluntarily merged with other chapters, thereby forfeiting a charter, and five involuntary decharters. (Numerically, these rechartering actions exceed 1,315 because some chapters were first rechartered and then merged or forfeited their charters.) The five involuntary dechartering decisions demonstrate the Board of Governors' uncompromising commitment to adherence to service, governance and management standards across the country.

There have been no disciplinary actions extended to any chapter officer, whether volunteer or employee, related to chapter charter forfeitures, voluntary or involuntary. It is important to note, that while the number of chartered chapters has declined by approximately 50 percent in the past decade, Red Cross services to disaster victims, military families, health and safety education and those who benefit from Red Cross community services have increased.

- d. As noted in our response to Question #23, the American Red Cross is a single corporation. Under the Congressional Charter, Section 3, Membership and Chapters, the chapters are the local units of the corporation and the Board of Governors is responsible for granting and revoking charters to local chapters. Chapters are units of the single corporation, not separate legal entities. Corporate Bylaws stipulate that the Board of Governors maintains the sole authority to grant or revoke local charters under certain specific conditions. Through this granting of chapter charters by the Board of Governors, the local chapter is directly accountable to the Board of Governors for operations within the chartered jurisdiction.

The Board of Governors has stipulated standard chapter bylaws to be adopted by each chartered chapter. The standard bylaws include provisions regarding the purposes, responsibilities, governing functions, procedural requirements, and financial regulations related to the local chapter. Any variation from or addition to the standard chapter bylaws must be pre-approved in writing by the Office of General Counsel at national headquarters. In support of corporate policies and the chapter bylaws, chapter boards are authorized and expected to establish day-to-day operational procedures for their chapter.

#### **Question #25**

**Regarding Red Cross officer compensation, I was surprised to learn that Dodie Rotherham, the current CEO of the Red Cross chapter in San Diego, earned \$309,000 (\$203,000 base salary and a \$109,000 bonus), the largest salary for any executive director of any Red Cross chapter in America. (Id.) Ms. Rotherham received these considerable funds despite her chapter's decision to effectively resist a request by National for 10 months to disclose how it spent tens of thousands of dollars after the previously mentioned fire struck San Diego. To better understand your organization's compensation structure, please describe all Red Cross policies at the national, regional, and chapter levels relating to officer compensation to include how salaries are set and reviewed and the nature and frequency of performance reviews. Also, produce a list stating the compensation of the top 50 highest paid National, regional, and chapter officers to include his or her salary as well as any benefit, expense, and allowance figures received for the past two years. Similarly, please identify any uniform qualification or performance standard for Red Cross officers at the national, regional or chapter level. Further, please explain the Red Cross' policy for hiring and firing its officers and employees.**

#### **Question #25 – Response**

According to the Bylaws of the American National Red Cross (Section 6, effective May 2002), officers of the American National Red Cross include:

- The Chairman of the Board of Governors, (appointed by the President of the United States upon recommendation by the corporation). This individual is a volunteer and receives no compensation;
- The Vice Chairmen of the Board of Governors. These individuals are elected by the Board from among its members and are volunteers who receive no compensation;
- The President (nominated by the Chairman and elected by the Board of Governors);
- The Chief Financial Officer (appointed by the President with the approval of the Board);
- The Secretary (appointed by the President with the approval of the Board); and
- The General Counsel (appointed by the President with the approval of the Board).

The President, Secretary, General Counsel and Chief Financial Officer are elected or appointed for a one-year term (7/1 through 6/30), and are subject to removal by the appointing officer with the approval of the Board of Governors. All other officers and employees of the corporation shall be subject to removal by the President (*Section 6.10, Bylaws of the American National Red Cross*). The General Auditor's appointment,

replacement, reassignment, or dismissal requires the review and concurrence of the Audit Committee of the Board of Governors.

When electing the President and CEO, the Board of Governors sets the compensation for the position. Thereafter, the Board's Executive Committee conducts the performance review and determines the President and CEO's annual increases.

For many years the entire Board of Governors reviewed all salaries in excess of a particular level. Over the last five years, the Executive Compensation Subcommittee of the Executive Committee has annually reviewed the salaries of national headquarters staff in excess of \$100,000. As new senior level positions were formed, such as Chief Executive Officer or Executive Vice President, the Executive Compensation Subcommittee was apprised of the salary requirements for the position.

All executive compensation decisions for national headquarters staff are based on competitive market analyses performed by or on behalf of the Red Cross Human Resources Department. The American Red Cross has retained a leading consulting firm to assure the reasonableness of its executives' total compensation. Summaries of competitive market analyses for particular positions have been provided to the Executive Compensation Subcommittee.

In May 2002, the Board of Governors created a Governance Committee that will absorb the functions of the Executive Compensation Subcommittee. Going forward, this Committee will also conduct the annual performance review of the President and CEO and report any recommendations for salary or benefit increases to the Executive Committee.

In addition, national headquarters expects that local chapter boards will follow similar policies and practices when determining the total compensation packages for chapter executives and ensure that compensation is reasonable and consistent with IRS 26 CFR Parts 53, 301, and 602 ("Excise Taxes on Excess Benefit Transactions," commonly referred to as "Intermediate Sanctions").

In chapters it is common practice for the Executive Committee of local chapter Board of Directors, who are community leadership volunteers, to set compensation rates for chapter executives. This is done with knowledge of comparable market point compensation rates for local nonprofit organization executives, and with full understanding that executive compensation for local nonprofit leaders is often the focus of public disclosure in business journals and other publications in local communities across the country.

The performance of employees and executives at the national level are evaluated against expectations and position responsibilities, no less frequently than annually. These evaluations are the primary basis for non-promotional compensation adjustments. Similar processes are required for chapter managers by *the Board of Governors Policy Manual*, Part One, Section 2.17.3, which states "An annual performance review shall be

prepared for each chapter manager by the chapter chairman and be available for review by the Regional Executive Officer.”

Attachment 12 includes a list of the 50 highest paid current employees of national headquarters (corporate and Chapter Services Network) and the chapters, as of May 31, 2002. The materials provided cover Fiscal Year 2001 (7/1/00 through 6/30/01). We can provide similar information for FY 2000 upon request.

**Question #26**

**For the past five years, please describe the sources and amounts of the Red Cross’ funding to include from any government entity as well as from taxpayers.**

**Question #26 - Response**

The American Red Cross receives less than 5 percent of its funds from federal, state and local government sources. These funds are primarily secured through competitively bid grants. See Attachment 13 for a Summary of Primary Revenue Sources, which includes information on grants and contracts from federal, state, local, and private sources. Also, see Attachment 14 for KPMG’s Audit of Federal Awards Performed in Accordance with U.S. Office of Management and Budget Circular A-133, for the year ended June 30, 2001.

**Question #27**

**Please state the Red Cross’ administrative budget and expenses for the last five fiscal years, and explain how the budget is determined. If there are separate budgets for the regions and the chapters, please explain how they are determined and state whether they are approved or reviewed by National.**

**Question #27 - Response**

Red Cross fund raising, management and general expenses (compared to budget) for the past five years are summarized in Attachment 15. The budgets for local chapters are approved annually by their local Boards based on delegated authority from the Red Cross Board of Governors. To ensure accountability, more than 70 percent of the total assets and revenues of our chapters are reviewed by national headquarters. Region budgets are part of the national headquarters budget, and as such are determined by management and approved by the Board of Governors. All approved budgets are consolidated and accepted by the Board of Governors annually.

**Question #28**

**To what extent are the administrative expenses of a region or a chapter paid from funds raised nationally or locally? To the extent that nationally raised funds are used for regional or chapter administrative expenses, please explain how National decides to allocate the amount of funds and to whom.**

**Question #28 - Response**

Virtually all administrative and other expenses for regions and chapters are paid from locally raised **unrestricted** funds. The only exception is approved indirect costs funded

by government grants, which comprise less than 5 percent of the corporation's total revenues. There are no nationally raised funds used for regional or chapter administrative expenses.

#### **Question #29**

**Explain how National holds the regions and the chapters financially accountable. Are there guidelines for uniform record keeping and financial reporting by the regions and the chapters? Are the regions and the chapters required to give periodic financial or other reports to National? If not, explain why not. If so, state what information is contained in these reports and how often these reports are required to be filed, and describe any penalty for failing to file in a timely, complete and accurate manner. Also, state the general nature of the information contained in these reports and whether these reports are reviewed by Red Cross officials at National or by an independent auditor.**

#### **Question #29 - Response**

In regard to uniform record keeping and reporting, chapters use standard charts of accounts for accounting purposes. All chapters are required to submit their comprehensive annual financial statements and related information to national headquarters. Consolidated financial statements are reviewed by the Audit Committee and the Board of Governors. Quarterly financial reports, representing approximately 70 percent of all chapter financial activity is also required to be submitted to national headquarters. The financial information included in the reports is used for quarterly filings with credit agencies to meet bond indenture requirements and for completing the Red Cross Federal Forms 990 and 990-T and compiling the annual report. Failure to submit these reports can result in corporate sanctions and possible de-chartering of the chapter. The matrix at Attachment 16 (financial accountability summary) outlines the extensive financial, accounting, and audit requirements for field units.

#### **Question #30**

**Generally speaking, federal and state laws require charitable organizations to file forms accounting for their use of funds. The Red Cross is required by statute to submit an annual report to the Secretary on its activities during the fiscal year ending June 30, including a complete, itemized report of all receipts and expenditures. The Statute also requires the Secretary to audit the report and submit a copy of the audited report to Congress (see 36 USC 300110). I question the effectiveness of this reporting mechanism in terms of informing Congress and, importantly, the public about the Red Cross activities to improve accountability. For example, I was surprised to learn that a congressional affairs specialist at the Department of Defense (DoD) was altogether unaware of any such reporting requirement. Given these concerns, please explain whether you believe that the Red Cross' annual filing requirement is sufficient to account for its finances and other activities and, if so, why. Also, state whether you believe that the Red Cross should provide additional financial reporting or other information to any other federal or any state agency. Further, state whether National or any of the regions or the chapters has been regulated in any way by a state or local official. If so, please**

**explain your response to identify the state, under what law or regulation, and under what circumstances.**

**Question #30 – Response**

The American Red Cross is transparent and accountable to Congress through several oversight measures. Consistent with the Congressional Charter of 1905, the U.S. Army Audit Agency (USAAA) is the entity assigned by the Secretary of Defense to oversee the Red Cross’s audit. KPMG LLP, the Red Cross external audit firm, performs an annual audit of the consolidated financial statement of the corporation. Staff from the USAAA participate in Board of Governors Audit Committee meetings, have access at any time to the Chair of the Audit Committee to raise concerns about the accounting practices of the Red Cross, and are provided with ongoing review of the scope and actual audit activities of KPMG LLP.

It is only following the sign-off of the USAAA that the Secretary of the Army receives our final audited financial statements and transmits them to Congress. In essence, the Red Cross annual audit undergoes a second round of scrutiny before being accepted by the Secretary of Defense. Following his acceptance of the audited financial statements, the Secretary of Defense transmits the annual report of the Red Cross to the President Pro Tem and the Speaker of the House. In addition, the Red Cross sends a copy of its annual report, including the complete audited financial statements, to all 535 members of Congress. While not required to do so, the Red Cross also voluntarily sends a copy of its annual report to every state’s Attorney General and provides the complete annual report on our public Web site at [www.redcross.org](http://www.redcross.org). In addition, the Congressional Charter requires the Red Cross to reimburse the government for the expense of auditing our agency.

The American Red Cross believes the current annual filings are sufficient to account for our finances, along with our practice of making these documents available publicly. The requirements of our Congressional Charter exceed that of any other not-for-profit organization since we file both the IRS Form 990 and submit our financial statements to House and Senate leadership via the Secretary of the Army.

There are three congressional committees with jurisdiction over the American Red Cross, and seven that exercise oversight of its major activities. The three that name the American Red Cross in their jurisdictional language are as follows:

- The Senate Health, Education, Labor and Pensions Committee has jurisdiction over the “domestic activities of the American Red Cross,” and its Public Health Subcommittee has oversight of FDA regulation of Biomedical Services;
- The Foreign Relations Committee has jurisdiction over “the international activities of the American National Red Cross and the International Committee of the Red Cross”; and
- The House International Relations Committee has jurisdiction over “the American National Red Cross” as it relates to international operations.

The seven committees with oversight of major activities of the Red Cross include:



- The Judiciary Committees of both the House and the Senate have oversight of federal charters of incorporation;
- The House Ways and Means and Senate Finance Committees have oversight of the IRS and its oversight of nonprofits;
- The House Committee on Transportation and Infrastructure and the Senate Committee on Environment and Public Works have oversight of FEMA and the Federal Response Plan (Red Cross is the only non-governmental organization with mandated responsibilities under the Plan); and
- The House Energy and Commerce Committee has exercised oversight of the Liberty Disaster Relief Fund and the Red Cross Biomedical Services (FDA 190) license.

The Red Cross is exempt from a number of state regulations relating to our financial statements, such as registering to do business or to conduct charitable solicitations. The legal status of the American Red Cross as a unique federal instrumentality and charitable corporation has been confirmed by a unanimous decision of the U.S. Supreme Court in *Department of Employment v. United States* 385 U.S. 355 (1966). The court found that the Red Cross is exempt from certain state and local taxes, as well as other obligations imposed by state or local law. As the Supreme Court noted in Department of Employment: “Time and time again, both the President and the Congress have recognized and acted in reliance upon the Red Cross’ status virtually as an arm of the Government” (385 U.S. at 359-360). In 1952, when Congress amended the income tax laws to provide an expanded charitable deduction for certain contributions to the Red Cross, the Senate Finance Committee report stated that:

“The Red Cross has a unique status which clearly differentiates it from other charitable organizations. Congress has conferred on the Red Cross a quasi-governmental status under legislation which sets forth its principal functions and prescribes its organization and methods of operation.”<sup>1</sup>

A few years later, Congress recognized that, in fulfilling the purposes of its charter, the Red Cross acts “as the official agent of this government.”<sup>2</sup> In 1981, Congress re-affirmed the governmental status of the Red Cross “as an instrumentality of the United States to ensure the permanence of its work, public confidence in its integrity, and the support of the people.”<sup>3</sup>

It is important to note that the President of the United States appoints eight members of the Red Cross Board of Governors from departments and agencies of the United States Government and the Chairman of the Board of Governors. Therefore, the executive branch of the federal government actively participates in policy decisions of the Red Cross and assists in governing and managing the Red Cross in accordance with its bylaws

<sup>1</sup> S. Rep. No. 1584, 82<sup>nd</sup> Cong., 2d Sess. 2 (1952), 1952 U.S.C.C.A.N. 1997, 1997.

<sup>2</sup> H.R. Con. Res. 232, 84<sup>th</sup> Cong. 2d Sess., 70 Stat. B32 (1996). See also S. Rep. No. 2139, 84<sup>th</sup> Cong., 2d Sess. 2 (1956) (describing the Red Cross as an “official agency of the United States Government”); Wesley A. Sturges, *The Legal Status of the Red Cross*, 56 Mich. L. Rev., 1, 29 (1957) (noting that Congress recognizes the Red Cross as “a specialized, integral unit of the government of the United States”).

<sup>3</sup> H.R. Con. Res. 120, 97<sup>th</sup> Cong., 1<sup>st</sup> Sess., 95 Stat. 1759, 1759 (1981).

and regulations. Within the executive branch, the Department of Justice has repeatedly confirmed that the Red Cross “is an instrumentality of the United States.”<sup>4</sup> Presidents have assigned important governmental functions to the Red Cross in general<sup>5</sup> and to its blood services program in particular.<sup>6</sup> The executive branch agencies have recognized that the status of the Red Cross as an “arm” of the government carries with it certain privileges and immunities, including sovereign immunity. Solicitor General Thurgood Marshall, who represented the Red Cross in presenting a sovereign immunity defense to the Supreme Court in Department of Employment v. United States, 385 U.S. 355 (1966), noted that:

“The entire purpose of the Red Cross is to act as an arm of the federal Government by performing governmental functions in close cooperation with the federal government.”<sup>7</sup>

### **Question #31**

**Please describe the Red Cross’ procedures for preparing the annual report to include the following information:**

- a. Identify the person or office responsible for preparing the report.**
- b. Identify the person or office who reviews the report before it is submitted to DoD.**
- c. State whether there are any aspects of the Red Cross’ operations that are not included in the report. If so, identify those operations and explain why they are not included in the report.**
- d. State whether the activities of the regions and the chapters are included in the report. If so, explain how National verifies the information received from the regions and the chapters for accuracy. If not, explain why not and include in**

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<sup>4</sup> E.g., Letter from Assistant Attorney General Philip B. Heymann to John L. Currin, General Counsel, American Red Cross (October 11, 1978).

<sup>5</sup> See, e.g., Proclamation No. 3083 (Eisenhower 1955), 3 C.F.R. 32 (1954-58) (government has established Red Cross as nation’s official volunteer agency to act under Geneva Conventions).

<sup>6</sup> In Proclamation No. 2770, (Truman 1948), 3 C.F.R. 185 (1943-48), President Truman states that “in response to a growing need, recognized by numerous medial leaders, the Red Cross has now embarked upon a national blood-donor program. . . .” The program was instituted in part because the need “would be multiplied in the event of a national emergency.” Proclamation No. 2827 (Truman 1949), 3 C.F.R. 5 (1949-53). The responsibilities of the Red Cross in times of such emergencies, including war and natural disaster, could be effectively met only by maintaining a continuing nationwide blood program.

Proclamation No. 2964 (Truman 1952), *id.* at 149 (“Red Cross, as the national coordinating agency for the procurement of blood for defense, has greatly expanded its facilities for collecting the vast quantities of blood required for military and civilian use”); Proclamation No. 3043 (Eisenhower 1954), 3 C.F.R. 3 (1954-1958) (program provides blood “in nearly half of the Nation’s hospitals and, at the same time, enables the Red Cross to meet its responsibility as the collecting agency of blood for national defense”).

<sup>7</sup> Brief for the Appellees 16, Department of Employment v. United States, 385 U.S. 355 (1966) (O.T. 1966, No. 78). More recently, the Solicitor general filed an amicus brief in support of the right of the Red Cross to remove cases to federal court based on its Congressional charter. Brief for United States as Amicus Curiae Supporting Petitioner at 1, American Nat’l Red Cross v. S.G., No. 91-594 (O.T. 1991) (Jan. 13, 1992) (noting “the Red Cross’ obligation” to perform functions indispensable to the Armed Forces and otherwise in support of government needs). And the IRS has ruled that the Red Cross “is included within the term Unites States” for purposes of exemption from a highway use tax levied on bloodmobiles. Rev. Rul. 76-510, 197602 C.B. 366, 367.

**your response an explanation of how National is able to prepare an accurate report for DoD without such information.**

- e. State whether the report constitutes a complete, itemized report of all receipts and expenditures as required by 36 U.S.C. § 300110. If not, explain why not.**

**Question #31 – Response**

- a. The Chief Financial Officer of the American Red Cross has primary responsibility for preparing the Annual Report, as required by the Congressional Charter.
- b. The President/CEO, Chief Financial Officer, and the Audit Committee of the Board of Governors review the report required under the Congressional Charter prior to its submission to DoD.
- c. All aspects of Red Cross operations are included in the report as required by generally accepted accounting principles and submitted to the Department of the Army and House and Senate leadership.
- d. All financial activities of the corporation are included in the report, including the chapter service regions and the chapters. Information is verified by CPAs and other independent reviewers. National headquarters reviews all of the chapter reports that are required to have independent reviews.
- e. The report constitutes a complete report of all Red Cross financial activity reported in accordance with generally accepted accounting principles.

**Question #32**

**Please explain the procedure after Red Cross submits its annual report to DoD to include the following information:**

- a. **Explain how DoD conducts the audit and the Red Cross' participation in this regard.**
- b. **State whether the audited report reflects all of the activities of National and the regions and chapters. If not, describe the types of activities and/or information that is not included.**
- c. **State whether there has ever been any follow-up by Congress once the audited report is submitted, and describe the nature of the follow-up and the Red Cross response.**

**Question #32 - Response**

- a. The U.S. Army Audit Agency (USAAA) annually performs a review of the consolidated financial statements for the American Red Cross and, together with KPMG LLP's opinion and the USAAA's review of that firm's work, furnishes Congress with a report regarding the fair presentation of the financial statements of the American Red Cross. The consolidated financial statements include the financial results of the entire corporation. In conducting its annual review of these consolidated financial statements, the USAAA follows generally accepted government auditing standards. Those standards require that it determine the

reasonableness of KPMG LLP's (the principal auditor) work and the extent to which it can rely on KPMG LLP's work. The USAAA reviews the consolidated financial statements and principal auditor's reports to evaluate compliance with generally accepted accounting principles and auditing standards. The review includes the principal auditor's qualifications, independence, quality control methods, planning, and evidence. The USAAA also tests the auditor's work to evaluate the auditor's understanding of the internal control structure, and the nature, timing, and extent of the audit work performed.

As mentioned in response to Question #30, staff from the USAAA participate in Board of Governors Audit Committee meetings, have access at any time to the Chair of the Audit Committee to raise concerns about the accounting practices of the Red Cross or the audit activities of KPMG LLP, and are provided with an ongoing review of the scope and actual audit activities of KPMG LLP.

- b. The audited reports examined by the USAAA reflect all of the activities of the Red Cross, including national headquarters and the chartered units.
- c. A copy of the annual report, including the audited financial statements and the reports by KPMG LLP and the USAAA, are sent to every member of Congress, as well as to the House and Senate leadership as required by the Congressional Charter. We are unaware of any concerns raised by members of Congress once the audited report has been submitted to these members.

**Question #33**

**The Red Cross is required by statute to reimburse the Secretary each year for auditing its accounts. (36 U.S.C. § 300110.) State the amount paid by the Red Cross to the Secretary for the past five years.**

**Question #33 - Response**

Audit fees paid to the Treasurer of the United States for the past five fiscal years are summarized below:

|             |             |             |             |             |
|-------------|-------------|-------------|-------------|-------------|
| <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> |
| \$30,227    | \$29,744    | \$32,224    | \$25,000    | \$29,000    |

**Question #34**

**Other than the Secretary's audit of the Red Cross' annual report, state whether National or any region or chapter has been audited by any federal or state agency in the past 10 years and, if so, please state the findings.**

**Question #34 – Response**

In the normal course of conducting business, the Red Cross and its operating units may be audited by federal or state agencies as part of contract provisions, statutory authority, and good stewardship. To the best of our knowledge, there have not been any such audits

in which significant or material disallowances of state or federal funds were recommended.

#### **Question #35**

**Under the Red Cross congressional charter, the President appoints eight of the Red Cross' 50 board members, who are senior government officials of departments and agencies included the Armed Forces, and designates one of these eight governors as the Red Cross principal officer. Of the remaining board members, 30 are elected by the chapters and 12 are elected by the board as members-at-large. It has been reported that since the chapters nominate, and largely influence, two-thirds of the 50-member national board, "chapters are able to operate in a semi-autonomous fashion with little oversight from the national office." (The *San Diego Union-Tribune*, December 23, 2001; page A-1). Please explain whether you believe that the Red Cross' present management structure provides the organization's President with sufficient management discretion and flexibility, particularly as it relates to ensuring financial accountability and to disciplining regions, chapters or individuals who violate any law, regulation or Red Cross policy. Also, please state whether there have been any discussions at the Red Cross about restructuring the board to make it more responsive to national interests or to any other interests. If so, please describe the proposed changes and interests.**

#### **Question #35 - Response**

Under the federal Charter, the Board of Governors "is the governing body of the corporation with all powers of governing and managing the corporation." 36 U.S.C. §300104(a)(1). Eight governors are appointed by the President, with one designated as the "principal officer of the corporation" (Chairman of the Board of Governors). With the exception of the Chairman, the remainder of the presidential appointees "shall be officials of departments and agencies of the Federal Government", with at least one, but not more than three, selected from the Armed Forces (Congressional Charter of the American National Red Cross, Section 4 – Board of Governors). There are 12 "members-at-large" chosen to provide a national, or public, perspective. Thirty members of the Board of Governors are elected by chapters, with consideration given to geographic and demographic representation.

The President is the chief executive officer of the Corporation and is responsible for implementing the policies and programs adopted or approved by the Board of Governors. The present management structure provides the President with sufficient discretion and flexibility to develop and enforce compliance with policies set by the Board of Governors to ensure financial accountability and management oversight of national headquarters, chapters, and regional offices.

#### **Question #36**

**As you are aware, the Red Cross is a humanitarian organization that is guided by its congressional charter (see 36 USC 300101 et. seq.) and the Fundamental Principles of the International Red Cross Movement. Congress has reserved the right to amend or repeal the statutory provisions relating to the Red Cross. To determine**

**whether there is a need to amend the Red Cross' congressional charter or for other legislation to assist the Red Cross in fulfilling its mission, please state whether you believe that present federal law enables your organization to fully perform its responsibilities. Please specify in your response any legislative authority that you recommend for Congress to consider to improve the Red Cross' ability to fulfil its responsibilities.**

**Question #36 - Response**

Current federal law enables the American Red Cross and its Board of Governors to fulfill their responsibilities under the Congressional Charter, and we recommend no change. In 1997, the U.S. House of Representatives Judiciary Committee undertook a review and recodification of Title 36, which included the charters of 92 organizations and the American Red Cross. At that time, the Board of Governors and management of the American Red Cross had the opportunity to suggest potential changes. The original legislation as introduced in the House separated Title 36 into two subtitles: Subtitle I, Observances and Ceremonies and Subtitle II, National Organizations. In 1998, upon the request of the Board and management, Congress (through the Office of Law Revision Counsel) agreed to create an additional Subtitle III – Treaty Obligation Organizations to appropriately recognize the establishment of the American National Red Cross subsequent and consistent with the signature of the Geneva Conventions by the United States.

**Question #37**

**Please state the present cash value of the Red Cross' endowment fund and your organization's short-term and long-term goals for its use.**

**Question #37 – Response**

The market value of endowed funds on April 30, 2002 was \$457.2 million. Since endowed gifts are generally restricted by the donor for investment purposes only, the original gift cannot be used but is invested to generate the optimal return to fund programs of the Red Cross. Thus, there are no short-or long-term goals for its use. Income earned on endowed funds is distributed monthly to participating chapters and national headquarters and is used in accordance with the wishes of the donor.

**Question #38**

**Please state whether any financial contributions received in connection with the 9-11 attacks will be incorporated into the endowment fund, and if so, state the amount and explain why. Similarly, state whether any moneys received through other Red Cross fund-raising efforts will be incorporated into this fund and, if so, state the amount and explain why.**

**Question #38 - Response**

We are unaware of any endowed gifts in which the income distribution was specifically restricted by the donor for those impacted by the September 11<sup>th</sup> attacks. Endowed gifts are received each month and are credited to the Disaster Relief Fund. Gifts deposited from July 1, 2001 through April 30, 2002 amounted to \$12.8 million.

**Question #39**

**Please produce the following:**

- a. The “Handbook of the International Red Cross and Red Crescent Movement”**
- b. The Red Cross’ Liberty Fund released on January 31, 2002**
- c. Quarterly financial reports of the Liberty Fund’s disbursement of funds**
- d. Resolution number “XL” of the XVIIth International Red Cross Conference relating to the “special facilities” that governments are requested to grant to their National Societies for carrying out their tasks.**

**Question #39 – Response**

- a. See Attachment 17 for a copy of the 935 page “*Handbook of the International Red Cross and Red Crescent Movement*” (13th Edition, 1994).
- b. See Attachment 1 for the American Red Cross Liberty Disaster Relief Fund Distribution Plan, January 31, 2002 (also referred to as the Mitchell Plan).
- c. See Attachment 2 for the American Red Cross Liberty Disaster Relief Fund Quarterly Report, April 30, 2002.
- d. See Attachment 17, page 731 of the Handbook of the International Red Cross and Red Crescent Movement” (Thirteenth Edition, 1994).