



**American
Red Cross**

March 29, 2006

National Headquarters
2025 E Street, N.W.
Washington, DC 20006

Bonnie McElveen-Hunter
Chairman

The Honorable Senator Charles Grassley
135 Hart Senate Office Building
Washington, DC 20510

Dear Senator Grassley:

Thank you for your letter of February 27, 2006. While we have addressed your specific questions in the enclosed response, I would like to take this opportunity to outline for you an ambitious agenda and timetable for action on the issues that you raised.

On governance, we held our Corporate Governance Summit last week and it provided a critical education and framework for our Board to embrace the necessary transformational governance changes and recommendations we anticipate will be coming from Board members as well as "outside" experts. While there were some Board members who did not completely agree with what they heard during the Summit, *every* Board member heard and understood the constant refrain from the invited governance experts that we can and should make important improvements to enhance the effectiveness of both our governance and oversight responsibilities. After receiving this input, we have finalized and approved the scope of our audit review and the formation of our Independent Governance Advisory Panel. We have attached these documents for your information. The Governance Committee intends to present to the Board and to and your staff "concrete" recommendations and a time line for action this Summer.

Responding to our lessons learned process from Hurricane Katrina, the changes being introduced constitute a strategic departure from the way the American Red Cross has traditionally conducted disaster operations. On March 24th, the Catastrophic Taskforce recommended and the Board of Governors approved unanimously the following recommendations:

- We will integrate Red Cross disaster delivery services into a community-based approach by coordinating with specific partners for a joint response, with the express intentions of building community response capacity and serving diverse communities. This should result in enhancing the ability to feed, shelter and meet the emergency needs of the local community.
- We will implement a single, standardized financial control system.
- We will provide a three-phased sequential approach to provide financial assistance to our clients during a catastrophic event.

We take an absolute zero tolerance policy regarding fraud or abuse and potential illegal conduct. There is no excuse for the instances of improper conduct which impacted on our

Together, we can save a life

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performance and response during Hurricane Katrina and on our continued relief and recovery efforts along the Gulf Coast. The Red Cross has a corporate ethics and compliance program which receives concerns and complaints from employees and volunteers through many reporting systems (through the Red Cross' 24-hour, confidential and anonymous toll-free telephone service line for whistleblowers, through direct reports to our internal Office of Investigations, Compliance and Ethics, and other avenues). We are conducting a comprehensive sweep throughout the organization to ensure that all complaints or concerns raised by employees and volunteers related to Hurricanes Katrina, Rita, and Wilma have been consolidated into our Office of Investigations, Compliance and Ethics for review and, if necessary, further investigation. We will continue to investigate all credible allegations and refer cases to the Federal Bureau of Investigations and other law enforcement agencies as suspected violations of law are uncovered. We are providing additional resources to investigate all allegations of improper conduct such as retaining outside investigators and forensic auditors to be deployed to New Orleans as needed to conduct investigations on complaints arising from Hurricanes Katrina, Rita, and Wilma.

The American people deserve not only our best efforts ... but our very best performance. The American Red Cross welcomes any comments or questions that you or the Committee on Finance staff may have on any of these areas. Please know that we will continue to work in partnership with you on these significant matters.

Very truly yours,

A handwritten signature in black ink, appearing to read "Bonnie", with a long horizontal flourish extending to the left.

Bonnie McElveen-Hunter

Enclosure

American Red Cross Response
to February 27, 2006 Letter from
Senator Charles E. Grassley

Below we respond to the issues raised by Senator Grassley related to the American Red Cross' governance structure, our coordination with other charities during disaster relief efforts, and our systems and culture related to reporting and addressing ethics and compliance complaints.

GOVERNANCE—MANDATE FOR REFORM

As discussed previously, the Red Cross has embarked on a substantive assessment of its governance model and practices. Our thinking and planning have continued to evolve since Bonnie McElveen-Hunter's letter of January 31, 2006 to Senator Grassley discussing the Red Cross' governance summit.

Independent Governance Audit and Governance Summit

On February 24, 2006, the Board of Governors announced it will undertake a comprehensive assessment of its governance model with the goal of identifying concrete reforms that will improve the organization's ability to meet the growing demands of its mission. That announcement noted that the assessment will include an independent governance audit and a governance summit.

We are pleased to report that an Independent Governance Advisory Panel has been formed to conduct an audit to assess the current statutory governance structure and the governance practices and procedures of the Board of Governors, to examine "best practices" in non-profit and corporate governance, and to consider what governance practices are appropriate for the American Red Cross. The goal of the audit is to identify governance changes that are in the best interest of the American Red Cross and the American public. The Board has engaged recognized corporate governance experts, John F. Olson and Amy L. Goodman of Gibson, Dunn & Crutcher LLP, to serve as independent counsel to assist the Independent Governance Advisory Panel. ^{1/}

To further assist in this effort, on March 21, 2006, the Board held a summit on current best governance practices, in cooperation with the National Association of Corporate Directors. Presenters included leading experts in governance from the for-profit and non-profit communities. The summit informed and educated Board members and key senior managers about governance best practices.

We currently anticipate that the Independent Governance Advisory Panel will report its conclusions and recommendations to the Governance Committee of the Board and to the Board in the late summer of 2006. It is expected that after considering such conclusions and recommendations that the Governance Committee will promptly recommend to the Board—and

^{1/} A list of the members of the Panel, which is currently being finalized, will be provided to the Committee as soon as possible.

the Board will then promptly consider—appropriate actions that may be taken by the Red Cross without legislation, as well as recommendations for legislative action on matters requiring a change in our Congressional Charter. We will keep the Senate Finance Committee informed as the Panel's work proceeds.

Board Participation and Governance

Your letter focuses on several governance matters—board participation, board size and independence. The scope of the audit to be undertaken by the Independent Governance Advisory Panel will be broad, encompassing a wide array of issues including these three matters. ^{2/} We nonetheless wish to respond to three specific items regarding Board participation and governance that you raised in your letter.

First, you note issues relating to attendance at Board meetings, focusing especially on government-appointed members. We provided you materials that document actual attendance at Board meetings in recent years. In general, you correctly observed that governmental officials who sit on the Board, officials like the Secretaries of State and HHS, rarely attend or do so by sending delegates. We trust the Independent Governance Advisory Panel will analyze this matter and address it in its report, and we will not comment further on it until that report is issued and considered by the Board. Rest assured, though, that the Board considers this issue, among others, to be integral to the audit process underway now by the Panel.

Second, you focus on the process that led to the recent departure of President and Chief Executive Officer, Ms. Evans. As you rightly note, the hiring and firing of the President & CEO is among a board's most critical functions. We have provided additional information that we think addresses a few inaccuracies in your February 27, 2006 letter's summary of events leading to Ms. Evans' departure. In a letter dated March 3, 2006 and during an in-person briefing, Mr. R. Michael Lowenbaum, Red Cross' outside employment counsel, provided this Committee an explanation of the events, actions and decisions that led to the December 5, 2005 meeting with Ms. Evans and a timeline of how and when Board members were informed and involved in decisions regarding Ms. Evans' departure. Under separate cover, we are providing you minutes of certain Board committee meetings, including copies of minutes from a July 25, 2005 Executive Committee meeting, a December 9, 2005 Special Meeting of the Executive Committee, a December 12, 2005 Special Meeting of the Governance Committee, and a December 12, 2005 Special Meeting of the Board of Governors. Obviously, there were contacts and conversations among Board members during key periods in the process, including the days leading up to the December 12, 2005 meetings mentioned above. Recollections may differ in some details, and we encourage you to speak with any Board member or with Ms. Evans to develop as complete a picture as possible of the events. We have already facilitated your discussion with Ms. Evans by making clear she may speak freely about this internal Red Cross matter, so long as she does not disclose any communication that would be covered by the organization's attorney-client privilege.

^{2/} The written charter defining the scope of the audit to be conducted by the Independent Governance Advisory Panel is set forth as Attachment 1.

Third, you comment on size of the Board, on the relationship between the Board and its Chair on the one hand and the President and CEO and other management personnel on the other, on issues relating to the involvement of local Red Cross chapters in governance, and on the governance of the chapters. The Red Cross' Congressional Charter, Bylaws and Board of Governors Policy Manual define the size of the Board and delineate the roles and responsibilities between the Board and the President and CEO. These governing documents also address in extensive detail issues relating to the chapters. Once again, you may be assured that the governance audit now being conducted by the Independent Governance Advisory Panel will explore these aspects of the Red Cross' governance practices and procedures. If the audit finds problems with the division of responsibilities between the Board and the President and CEO, if the audit finds that the Board is too involved in the day-to-day management of the organization, if the audit finds that chapters are over-represented on the Board, or if the audit finds that governance of the chapters can be improved, then the Board will consider those findings and any proposed recommendations or solutions and determine any appropriate changes.

RED CROSS COORDINATION WITH OTHER CHARITIES

In our submission to this Committee on January 31, 2006, we provided a comprehensive response relating to Red Cross coordination with local charities during the Hurricanes Katrina, Rita, and Wilma disaster relief efforts. In that response, we outlined the Red Cross' past coordination efforts and future initiatives that the Red Cross will undertake to further develop collaborative partnerships to respond to disasters.

We applaud and appreciate the efforts of state and local charities with whom we partnered in saving lives, bringing relief to victims, and otherwise responding to a devastating humanitarian disaster. Could the Red Cross and the entire non-profit community have done better? Undoubtedly. There is no perfect response to a disaster like the one that befell our Gulf Coast last year. Every day, the Red Cross is continuing to develop new strategies and initiatives based on lessons learned from the 2005 hurricane season to ensure that we are better prepared to respond to future disasters. For example, on March 8, 2006, the Red Cross hosted a candid panel discussion with non-profit national relief organizations that partner with the Red Cross during disasters and otherwise. ^{3/} The panel was asked to discuss the way the Red Cross responds to disasters of all sizes. The panel discussion was part of the Red Cross' overarching lessons-learned exercise to ensure the organization can meet the needs of people affected by hurricanes and other major disasters in time for the 2006 Atlantic hurricane season. The Red Cross will provide the Committee with the report on those lessons learned when it is finalized.

The panel presentations and the question and answer sessions centered around three basic themes – diversity, capacity and partnerships. A key lesson from this panel presentation was that human needs are best met by the combined efforts of many diverse organizations. With that in

^{3/} Members of the non-profit panel included Ande Miller, Executive Director – National Voluntary Organizations Active in Disaster (NVOAD); Rev. Nelson Rivers, Chief Operating Officer – NAACP; Juliet Choi, Staff Attorney – Asian American Justice Center; Craig Nemitz, Disaster Services Coordinator – America's Second Harvest; Jim Burton, Director, Volunteer Mobilization – Southern Baptist Convention; and Major Todd Hawks, Public Affairs Coordinator, and John Berglund, National Disaster Services Coordinator – Salvation Army.

mind, the Red Cross is seeking to strengthen its partnerships with disaster relief, advocacy and faith-based groups in an effort to serve all segments of disaster-affected communities more effectively. Members of the panel provided frank assessments of concrete steps the Red Cross could take to build more effective partnerships and improve its response, and each offered the assistance of their organization in moving forward.

Further discussion identified that the Red Cross needs to improve the capacity for service delivery at the chapter level, including training of local unit workers. One panelist commented on the critical importance of training chapter volunteers to understand better the details of partnership relations. Another panelist added that the Red Cross works best during a disaster where solid local relationships are firmly in place in advance. All panelists praised the Red Cross for asking the tough questions of itself, and for seeking the expertise and input from its peers in the not-for-profit sector. At the same time, they urged the Red Cross to consider using existing and available partner resources for training and service delivery.

As a result of this in-depth lessons-learned process, the Red Cross is developing a variety of modifications to certain Red Cross disaster programs, systems and procedures for implementation before the next hurricane season. Several of the changes under development constitute a strategic departure from the way Red Cross has conducted disaster operations in the past. One of the major initiatives the Red Cross is developing is a community-based approach to service delivery during disasters.

In a catastrophic event, the Red Cross needs to shift its current services strategy to a new model that integrates partner groups directly into service delivery. Traditionally, the Red Cross has been in the business of setting up *Red Cross* shelters and delivering *Red Cross* meals. The lessons of Katrina and Rita, however, have highlighted that, particularly in underserved locations, the Red Cross must do a better job of giving other groups in the communities the tools to be service delivery providers. The Red Cross will be expanding its mission of delivering services in times of disaster to include maximizing local communities' ability to feed, shelter and meet the emergency needs of those affected by disaster. As an example, the Red Cross is considering how it can provide the supplies, training, and the funding to allow churches and other local entities to shelter and feed disaster victims; in short, these would be shelters the Red Cross would recognize and support financially but would not necessarily run. This new service delivery model would allow the Red Cross to resource other groups, thereby supplementing its current structure of shelter and feeding efforts.

The key element to this strategy is the Red Cross' ability to respect its partners, add value to their efforts and understand that their primary interest is in serving their community during a catastrophe. The Red Cross will be successful only to the extent that the public perceives it is adding value to that community service. The Red Cross understands that partnership does not mean assisting the Red Cross in its mission, but helping others achieve the shared mission of serving the affected community. The Red Cross will coordinate with specific partners for a joint response, with the express intention of building community response capacity and serving the diverse community. The concept is to integrate the local community-based organizations' operations with the Red Cross, resulting in an authentic partnership in which well-trained

disaster workers, community partners, and spontaneous volunteers provide critical relief services in the most effective manner possible.

CULTURE OF COMPLIANCE

Red Cross Ethics and Compliance Programs—The CCL and Other Avenues

Over the past several years, the Red Cross has developed a significant corporate ethics and compliance program. At the center of this program is a hotline for Red Cross whistleblowers, employees and volunteers to raise concerns or complaints to be addressed by the organization. The prominent feature of this system is the Concern Connection Line (“CCL”) which was put in place in January 2003. CCL is a 24-hour, confidential and anonymous, toll-free telephone service line that provides every Red Cross employee and volunteer a mechanism for reporting concerns or questions regarding potentially illegal, unsafe, or unethical conduct observed or discovered within the organization. Employees and volunteers are trained in the availability of this confidential reporting system, are provided literature about how the system works and the confidentiality safeguards built into it, and are encouraged to use it to report any concerns.

As part of the Red Cross’ ethics program, employees and volunteers are encouraged to report potentially illegal, unsafe, or unethical behavior immediately, including fraud, waste, and abuse. The Red Cross provides information about its ethics program and the CCL to employees and volunteers through a variety of means – the internal website known as CrossNet; ethics trainings and presentations; and the dissemination of brochures and wallet cards promoting and explaining the ethics program and the CCL. ^{4/} As a general rule, employees and volunteers are expected to try to resolve issues with their immediate supervisor, a human resources representative or any manager with whom they feel comfortable. Employees and volunteers are encouraged to call the CCL anytime local resolution is not possible, attempts to resolve the issues at the local level are unsuccessful, or the matter is such that confidentiality or other concerns warrant direct resort to the CCL.

When receiving a call, a trained third-party CCL communication specialist from Global Compliance Services asks a series of questions in order to understand the issue being raised. At the conclusion, the caller receives a unique identification number and is assigned a call-back date. The caller simply references the identification number when he or she calls back to receive follow-up on their claims. The CCL specialist prepares a report and forwards it to Red Cross’ Office of Investigations, Compliance and Ethics (“IC&E”), who in turn usually forwards it to the appropriate Red Cross manager for review, appropriate investigation and action. In the instance of complaints alleging criminal acts, fraud, misappropriation or misuse of Red Cross resources or funds, or in a matter requiring confidentiality, the matter is not forwarded to management. Instead, such complaints are forwarded to a team of investigators from IC&E for review and investigation or, if necessary, to outside legal counsel.

^{4/} As an example, we are providing the Committee with copies of several brochures, a wallet card, and copies of some materials made available through CrossNet as Attachment 2.

We believe that the CCL system assists the Red Cross in creating a culture of compliance in which concerns and complaints may be freely expressed. Volunteers and employees throughout the organization have placed calls to the CCL hotline since it was implemented in 2003. Specifically, in calendar year 2003 there were 530 concern and complaint calls to CCL by volunteers and employees, in calendar year 2004 there were 499 concern and complaint calls to CCL, and in calendar year 2005 there were 613 concern and complaint calls to CCL. ^{5/} Each of these calls were addressed and reviewed through the CCL process described above.

In addition to providing the CCL and training employees and volunteers on its availability, the Red Cross makes clear that it does not tolerate any retaliation or retribution against any employee or volunteer who reports complaints or concerns. This anti-retaliation policy is stated in the materials publicizing the CCL and elsewhere. Retaliation or retribution against any employee or volunteer for the use of compliance reporting mechanisms will result in appropriate discipline, up to and including termination.

In addition to the CCL process, IC&E may receive complaints of criminal activity and possible fraud, waste and abuse in many different ways – from the field units (chapters and blood services regions), directly from volunteers or employees, by letters to the President and CEO, and contacts from law enforcement, the federal government, the press, and the general public. IC&E investigates and, where appropriate, coordinates with local, state and federal law enforcement to ensure the apprehension of criminals and, at the direction of the Office of the General Counsel, assists in the prosecution of the offenders. IC&E also identifies systemic weaknesses and vulnerabilities within the organization and works with management on mitigation strategies and plans.

Finally, IC&E addresses other compliance issues for the Red Cross, including oversight of federal grant compliance, monitoring and education for specific federal grants, and oversight of the Red Cross “Ethics...Everyday Program,” which provides guidance and education to employees, volunteers and contractors about general ethical issues and the Red Cross Code of Conduct.

Board Oversight

The Board of Governors exercises oversight for the systems for investigating Red Cross whistleblower, employee and volunteer complaints and concerns. The Senior Vice President of Enterprise Risk and the Senior Director of IC&E report regularly to the Board Audit Committee the trends, numbers of CCL cases, misappropriations, and other significant matters under investigation. Management has the responsibility to review, investigate, and take necessary actions to remedy these complaints and concerns. Therefore, the governance structure of the Board, even with thirty members of the Board elected at the national conventions by chartered

^{5/} These concern and complaint calls raise varied issues ranging from fraud allegations to employment issues, to safety concerns. For example, of the approximately 600 concern or complaints calls in 2005, about one-third contained allegations of fraud, about one-sixth were categorized as general concerns, less than one-sixth contained concerns about workplace conduct, and the remaining calls contained various allegations including but not limited to complaints about disciplinary action taken, employment-action issues, work-place environment issues, and safety concerns.

units, does not affect the guarantee of confidentiality in reporting, the investigation of individual complaints by independent personnel at national headquarters, or the necessary remedial action taken by management.

Reports to Red Cross

Your letter focuses on two reports in particular, and requests copies of all reports received or completed by the Safety and Security ("SAS") Office and all ethics and compliance reports for the past five years. Below we address certain confidentiality issues raised by your requests for reports, provide the requested information on the two specific reports mentioned in your letter, and discuss Red Cross' response to the ethics and compliance procedures that have grown out of the 2005 Gulf hurricanes.

CCL Confidentiality Issues. As a threshold matter, individual employees do not usually draft reports. Rather, as discussed above, many of the Red Cross' employees and volunteers use the Red Cross CCL complaint processes anonymously, with the expectation that their complaints or concerns will remain confidential. Complaints can range from concerns about fraud and waste, to concerns about an individual supervisor's personal management style, to concerns about how the volunteer has been treated. Many times these complaints contain details of a personal nature about the person complaining, the person being complained about, or other people mentioned in the complaint. As a result, given the Red Cross's commitment to employees and volunteers that the CCL process is anonymous and confidential, the Red Cross believes that sharing any such complaints would chill the nature of the confidential hotline. This would undercut the very purpose of the CCL, which is to encourage people to come forward and identify problems of criminality, ethics, illegalities or other business-related improprieties. Because we believe that providing copies of all these confidential complaints would be a breach of our promise of confidentiality to our employees and volunteers, we request an opportunity to discuss this matter with you in person so that we may assist you in addressing the underlying issues that concern you.

Safety and Security. The SAS functions only during disaster relief operations and is the group of staff members responsible for addressing the safety and security of Red Cross employees, volunteers, and clients. Traditionally, the SAS function ensures that appropriate reports are taken when someone injures themselves during an operation or in a shelter. In addition, SAS intervenes if a situation develops that creates an unsafe environment for Red Cross clients or employees and volunteers and is tasked with contacting local law enforcement. The Red Cross currently is exploring whether it has SAS reports that are responsive to the request in your February 27, 2006 letter and will report back to the Committee when that process is complete.

Specific Reports. As discussed above, there are many avenues by which the Red Cross receives concerns and complaints from its volunteers. The Red Cross would like to respond to the two examples referenced by this Committee, both involving reports arising from complaints by volunteers about various aspects of the Red Cross' Hurricanes Katrina, Rita, and Wilma disaster response operations.

- **Christee Lesch**

Ms. Christee Lesch and two fellow volunteers raised concerns about aspects of management of the disaster response operations, among them concerns about the provision of meals at a fixed feeding site in New Orleans on two days in September 2005 and the responsiveness of the Red Cross toll-free number for emergency financial assistance in the wake of Hurricane Katrina. While the Red Cross is proud of the assistance our employees and hundreds of thousands of volunteers provided to the millions of people affected by Hurricanes Katrina, Rita, and Wilma, we have taken seriously concerns like the those raised by Ms. Lesch and her colleagues.

Ms. Lesch, a resident of Iowa, served as a Red Cross Disaster Services Human Resources (“DSHR”) volunteer on assignment in Louisiana for about two weeks, from approximately September 8 to 23, 2005. Ms. Lesch was assigned to the Algiers public affairs function of the disaster response operation. Ms. Lesch served with fellow volunteers Janie Duncan, from Kentucky, and John Lupton, from Connecticut.

Ms. Lesch reports that she arrived in the Algiers neighborhood of New Orleans on September 18 to work with a fixed feeding site that opened on Monday, September 19, 2005. Ms. Lesch and her fellow volunteers, Ms. Duncan and Mr. Lupton, report that they had concerns about the decisions being made as to the quantity of meals to be prepared for the feeding sites and about the fact that the meals were being distributed from a fixed site rather than from a mobile operation.

During the weekend of September 17-18, as city officials in New Orleans announced plans for temporary reentry of residents, the City of New Orleans requested the Red Cross to open a feeding site to serve the people who would be returning to the Algiers neighborhood. City officials estimated that the number of people returning could be 60,000. The Red Cross agreed to open such a site and to be prepared to serve the requested number of meals starting on Monday, September 19. Although the city had estimated the need for approximately 20,000-30,000 meals, by all accounts far fewer people arrived at the feeding site and the Red Cross only distributed somewhere between 4,000 and 7,000 meals on Monday, September 19 and then again on Tuesday, September 20. By Wednesday, September 21, 2005, the Red Cross distributed the bulk of the meals it had for the Algiers site. The operation was then shut down as another evacuation order was issued due to the approach of Hurricane Rita.

While on the ground, Ms. Duncan, who served as a manager of one of the two fixed feeding sites in Algiers, expressed her concerns about the quantity of meals that had been ordered. Based on the Red Cross’ commitment to the City of New Orleans and on the estimates provided by the City to the Red Cross, the Red Cross operation decided to keep the meal orders consistent with the request from the City.

After that decision was made, Ms. Lesch contacted national media, specifically NBC news, on Tuesday, September 20, to report her concerns about the waste of meals at the Algiers site and about the busy lines at the Red Cross’ 800 number for emergency financial assistance at

the call center. ^{6/} Ms. Lesch, Ms. Duncan, and Mr. Lupton were interviewed over the course of several hours by an NBC reporter.

After returning home, Ms. Lesch and her fellow volunteers wrote a report and sent it to the Red Cross. The Red Cross has taken their concerns very seriously, both locally and at the national level, just as we have other reports we received about activities during the height of the catastrophe. Ms. Lesch's local chapter in Des Moines, Iowa, the Red Cross Midwest Service Area also located in Des Moines, and national headquarters have all met with Ms. Lesch and responded to her concerns. Several representatives from the local chapter met with her in October 2005. On December 15, 2005, Red Cross' Vice President, Domestic Response and Operations, invited Ms. Lesch, Mr. Lupton, and Ms. Duncan to meet with officials at national headquarters to discuss their experience and to gather information for the lessons-learned process. ^{7/} On January 31, 2006, Ms. Lesch and Mr. Lupton came to Red Cross headquarters in Washington, DC and met with Red Cross' Senior Director, Client Services and Red Cross' Manager, Operations Center to discuss their experiences.

The information provided by Ms. Lesch, Mr. Lupton, and Ms. Duncan was incorporated into the Red Cross lessons-learned project. Throughout December 2005 and January 2006, the volunteer and employees of the Chapter Readiness & Evaluation Unit of the Preparedness & Response Department of Red Cross national headquarters led a project to collect lessons to be learned from the Red Cross response to the events of the 2005 hurricane season. As with the overall organizational lessons-learned activities, the primary objective of this initiative was to identify the priority concerns that require action by the Preparedness & Response Department to improve the Red Cross disaster response to future national disaster events.

The Preparedness & Response Department gathered information for this project through two primary means – an analysis of constituent satisfaction surveys and an analysis of feedback gathered during internal and external constituent focus and discussion groups. Satisfaction surveys were conducted of the following constituent groups: (1) clients who received financial assistance from the Red Cross; (2) partner government and voluntary agencies; (3) members from the DSHR system who were assigned to the relief operations during the 2005 hurricane season; and (4) spontaneous local volunteers who responded to needs in their communities in the aftermath of the events of the 2005 hurricane season.

In addition, fifteen discussion groups were convened including the following constituent groups: (1) leadership of affected chapters from Alabama, Florida, Louisiana, Mississippi and Texas, along with the associated Disaster Relief Operation and Service Area leadership; (2) leadership of significantly affected chapters from outside of the directly impacted Gulf Coast states; (3) Service Associates from the DSHR representing all DSHR groups, the large disaster

^{6/} The Red Cross has publicly acknowledged that the toll-free telephone number for emergency financial assistance was immediately overwhelmed when it was activated. This resulted in many clients receiving a busy signal when calling the number. The Red Cross encouraged clients to keep calling as it worked to resolve the problem. While some people experienced significant delays, thousands of needy people got through to the call center on a daily basis.

^{7/} A copy of the letter inviting Ms. Lesch, Mr. Lupton, and Ms. Duncan to this meeting is enclosed as Attachment 3.

relief operations from the 2005 hurricane season and all of the Service Area jurisdictions; (4) Response leadership from FEMA and key voluntary agency partners; (5) leaders of the Preparedness & Response teams from the eight Service Areas; and (6) leadership and staff of the Preparedness & Response Department and the Disaster Operations Center at national headquarters.

In this way, our lessons-learned initiative identified not only major successes, but also priority concerns requiring action. The identified priority concerns will guide the design and implementation of appropriate interventions on both a short-term and a long-term basis. Ms. Lesch's experience and those of many other volunteers have helped form these priorities. We are in the process of completing a written report on this lessons-learned initiative and will provide the Committee with a copy upon its completion.

- **Jerome Nickerson**

Jerome "Jay" Nickerson, a resident of Maryland, served as a Red Cross DSHR volunteer on assignment in Louisiana from approximately October 26, 2005 until December 13, 2005. Mr. Nickerson served as a volunteer in the SAS and Staff Service function of the disaster response operation. ^{8/} He drafted a report concluding that certain volunteers were engaged in inappropriate behavior during disaster response effort. As described below, because of the serious nature of the allegations, the Red Cross' IC&E department reviewed Mr. Nickerson's report in order to determine the best course of action.

As explained above, the SAS function in a disaster relief operation is the group of staff members responsible for addressing issues of safety and security for Red Cross employees, volunteers and clients. Traditionally, the SAS function ensures that appropriate reports were taken when someone injures himself or herself on or at an operation or shelter; hires outside security guards, if necessary, to ensure physical safety at a shelter operation; intervenes if a situation develops that creates an unsafe environment for Red Cross clients or employees and volunteers at a shelter or other site during a disaster; and contacts local law enforcement when appropriate.

In November, Mr. Nickerson and others working with SAS contacted an IC&E investigator alleging possible diversion of Red Cross assets out of a warehouse in Louisiana. It was IC&E's assessment that the allegations were speculative and unsubstantiated. Mr. Nickerson was told that if additional corroborating information was forthcoming, the matter would be revisited and possibly investigated by the IC&E.

Mr. Nickerson conducted an investigation and submitted a report to IC&E and SAS on December 3, 2005. IC&E concluded, among other things, that the "swapping" of Red Cross products with other NGOs and with FEMA in order to obtain needed supplies that were otherwise not available to the Red Cross and victims was an acceptable practice in disaster response operations. Simultaneously, IC&E received complaints about Mr. Nickerson and other SAS staff, including a complaint from a Chapter Executive that Mr. Nickerson improperly

^{8/} Mr. Nickerson refers to himself as a "SAS Lead Investigator." No such title exists within the Red Cross DSHR volunteer system.

detained one of her employees serving on the disaster operation against her will as part of his investigation. ^{9/}

IC&E has been conducting numerous investigations into allegations of fraud, misappropriation, misconduct and potential criminal activity arising out of Red Cross' disaster operations related to Hurricanes Katrina, Rita, and Wilma. IC&E follows-up on leads and initiates investigations into credible allegations. Currently, IC&E is looking into a number of issues arising out of various warehouse and other operations in New Orleans. Other Red Cross volunteers have come forward with credible information supported by several witnesses and corroborated by factual information. The allegations of these volunteers are much more specific than Mr. Nickerson's allegations and the Red Cross is continuing to investigate these allegations. Specifically, IC&E investigators were on site in Louisiana in mid-March, looking into allegations including the existence of unauthorized Red Cross distribution centers or warehouses in the New Orleans area; improper use of Red Cross supplies at rallies and/or local political events; inflated orders for food from suppliers; and failure to consistently conduct background checks on volunteers. Moreover, Red Cross is working closely with state and federal law enforcement officials and will refer to them for investigations and prosecutions any criminal activity that IC&E uncovers.

Consolidation of the 2005 Gulf Hurricane Internal Red Cross Investigations

The Red Cross recognizes that it is vitally important to fully investigate all credible allegations of wrongdoing and to work closely with law enforcement on allegations of fraud or other criminal behavior. In the wake of the Gulf Coast hurricanes, Red Cross' IC&E has worked tirelessly to review all complaints and to investigate all credible allegations of wrongdoing. While the overwhelming majority of complaints of wrongdoing relate to financial assistance fraud by members of the general public, ^{10/} there has been a smaller sub-set of complaints involving allegations of improprieties by Red Cross volunteers or employees. Because of the organizational integrity issues raised by such allegations, the Red Cross treats them with the utmost seriousness, IC&E closely reviews all such complaints, investigates all credible allegations raised in those complaints and, where appropriate, provides information to law enforcement.

The Red Cross believes that it has made significant efforts to ensure that all such credible allegations are being appropriately investigated by IC&E. The Red Cross is pleased to inform the Committee that it has implemented an additional system to ensure that there are no complaints that have been made which are not being reviewed or investigated. Specifically, the Red Cross is taking steps to ensure that all reports, claims, and complaints of wrongdoing have been sent to IC&E. This will ensure IC&E is apprised of all complaints and that no stone will be left unturned in terms of matters to be investigated. Moreover, IC&E is hiring additional outside investigators to assist in reviewing Hurricanes Katrina, Rita, and Wilma complaints. In addition, the Red Cross' Enterprise Risk Department will retain forensic auditors to audit the performance

^{9/} The Red Cross removed Mr. Nickerson from the disaster operation job because of this complaint.

^{10/} To date, the Red Cross has referred about 600 such cases to the appropriate law enforcement agencies and has been advised that more than 70 people have been indicted and more than 50 people have been convicted with the assistance of the information that we have passed on.

of warehouse and distribution centers in the Gulf and to address other issues as they arise. To the extent that IC&E investigations or forensic audits reveal fraud or other criminal behavior, Red Cross will follow its standard practice of reporting this to, and cooperating with, the appropriate law enforcement agency.

**American Red Cross Response
to February 27, 2006 Letter from
Senator Charles E. Grassley**

ATTACHMENT 1

**AMERICAN RED CROSS
BOARD OF GOVERNORS**

Charter for an Independent Governance Audit of the American Red Cross

The Board of Governors of the American Red Cross ("Red Cross") has commissioned an independent governance audit of the Red Cross. The purpose of the governance audit is to assess the current statutory governance model and the governance practices and procedures of the Board of Governors, examine "best practices" in non-profit and corporate governance, and consider what governance practices are appropriate for the Red Cross. The goal of the audit is to identify appropriate governance changes that are in the best interest of the Red Cross and the American public.

The audit will explore areas including:

1. the size and composition of the Board of Governors, participation by and independence of Governors and the process for selecting candidates for the Board;
2. the organization and functioning of the Board of Governors, including the composition, structure and roles of the Board's committees;
3. the roles and relationships of the Board of Governors and management;
4. the Board of Governors' oversight of the governance practices of the local chapters; and
5. the relationships and lines of reporting between the Audit Committee, the outside auditor, and the internal audit function, including the whistleblower process as it applies to Red Cross employees and volunteers, as well as constituencies served by the Red Cross.

The audit will be conducted by an Independent Governance Advisory Panel, assisted by independent counsel.

**American Red Cross Response
to February 27, 2006 Letter from
Senator Charles E. Grassley**

ATTACHMENT 2



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- redcross.org
- cruzrojaamericana.org

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American Red Cross Policy on Dishonest Acts: What To Do if You Suspect or Uncover a Misappropriation, Waste, Fraud or Abuse

How Should You Report a Suspected Dishonest Act?

The American Red Cross encourages employees and volunteers to contact their supervisors directly to discuss concerns. If an employee or volunteer suspects a dishonest act, he or she should alert his or her supervisor or other member of local management. Next, the employee or volunteer should submit a [Misappropriation Report](#) to the Office of Investigations, Compliance, and Ethics.

If employees or volunteers are not comfortable contacting Local or Senior Management, they may call the 24-hour, toll-free Concern Connection Line at 1-888-309-9679. Callers may choose to identify themselves or to remain anonymous. A thorough, fair and neutral investigation will be conducted into all concerns and allegations. The American Red Cross does not tolerate retaliation and will take remedial action should retaliation occur.

What are the Consequences for Failure to Report Known Dishonest Acts?

Failing to report misconduct is an act contrary to the best interests of the American Red cross and is, therefore, a violation of the Code of Conduct. Failure to comply with this policy will be reported to the Red Cross Unit's Senior Management, and may result in disciplinary action up to and including termination. This policy replaces the November 1996 Misappropriation Report Instructions. Please direct any questions to Teala Brewer, Senior Director, Investigations, Compliance, and Ethics, at brewert@usa.redcross.org; Bob Johnson, Senior Investigator, at johnsonrob@usa.redcross.org; or Ken Barrington, Senior Investigator, at barringtonk@usa.redcross.org.

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The Concern Connection Line (888) 309-9679

The Concern Connection Line is a 24-hour, confidential and anonymous, toll-free telephone service line that provides each employee and volunteer a mechanism for reporting concerns or questions regarding potentially illegal, unsafe, or unethical conduct observed or discovered within the organization.

A trained third-party communication specialist will ask you a series of questions to better understand the nature of your concern. No call-tracing or recording devices are ever used. A report is prepared and forwarded to the appropriate Red Cross management entity for review and appropriate action. At the end of your call, you will receive a unique identification number and an assigned call-back date. Simply reference the identification number when you call back to receive follow-up on your report. If additional information is required, it will be requested when you call back. A [Frequently Asked Questions](#) document is available for further review.

A Symbol of Integrity

Around the world, the American Red Cross is known as one of the world's most respected humanitarian organizations. As such, the American Red Cross is committed to the highest standards of ethics and workplace conduct. We are dedicated to maintaining an environment that emphasizes high performance. Integrity is key.

The [Red Cross Code of Conduct](#) provides the guidance necessary for all Red Cross employees and volunteers to maintain our environment of integrity. Each member of the Red Cross is required to read and sign the Code of the Conduct. It is your responsibility to be an active protector of the values that make us who we are. If a potentially illegal, unsafe or unethical situation arises in your workplace, speak up! If possible, notify your local supervisor, human resources representative or any manager with whom you feel comfortable. If attempts to resolve a problematic issue at the local level are unsuccessful, call the Concern Connection Line.

Examples of some such issues include:

- Theft, fraud or any other dishonest conduct
- Discrimination or harassment
- Waste or abuse of Red Cross resources
- Conflicts of interest
- Unsafe situations
- Mismanagement
- Any actions that violate the Red Cross Code of Conduct

American Red Cross
 Concern Connection Line
 (888) 309-9679

Toll-free. Always available. Always confidential.

Download the following [Key Message Power Point presentation](#) (309 KB) to share with staff at meetings and presentations regarding the importance of the new Concern Connection Line resource.

Download a [special screensaver](#). (.exe file, 920 KB)
(If prompted, save the screensaver file to your hard drive.)

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**American Red Cross Response
to February 27, 2006 Letter from
Senator Charles E. Grassley**

ATTACHMENT 3



**American
Red Cross**

National Headquarters
2025 E Sreet, N.W.
Washington, DC 20006

FILE COPY

December 16, 2005

Dear Ms. Lesch:

The American Red Cross has initiated a detailed analysis of its response to the 2005 hurricanes. The focus and intent is the development of Lessons Learned, and the implementation of allied actions that will improve and enhance the Red Cross response to future disasters.

To this end, I am requesting to meet with you, John Lupton and Christee Lesch, during the afternoon of January 10, 2006 to review the events and circumstances of Red Cross feeding activities at the Algiers, Louisiana site. The other Red Cross participant in the session will be Gregg O'Ryon, Senior Director, Client Services.

I would appreciate either an email or phone call from you confirming your ability to attend the session. Upon receipt of this confirmation, we can proceed to arrange for your travel. I do not anticipate that an overnight stay will be required. If the proposed date is a problem, we will seek to arrange for another more suitable time later in January.

Thank you for your consideration.

Sincerely,

Armond T. Mascelli
Vice President
Domestic Response Operations
Mascellia@usa.redcross.org
Office Phone: 202-303-8668

Ms. Christee Lesch
1319 Main Street
Adel, Iowa

Cc: Mr. Gregg O'Ryon, Senior Director, Client Services
Mr. John Lupton, Weston, Connecticut
Ms. Janie Duncan, Kuttawa, Kentucky

Together, we can save a life