



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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For Immediate Release

Thursday, December 29, 2005

## Grassley Questions Red Cross Board on Its Practices, Effectiveness

WASHINGTON --- Sen. Chuck Grassley, Chairman of the Committee on Finance, is asking questions of the Board that governs the American Red Cross following the recent resignation of the charity's President and CEO.

"It's time for the Red Cross Board to start answering questions about its role in the turmoil at the top of this premiere charitable organization," Grassley said. "In fact, the name and notoriety of the Red Cross make it essential for those governing the organization to go the extra mile to ensure public confidence not only in the Red Cross but in the non-profit sector generally. Congress, too, has a special obligation in this case. Not only does the Red Cross enjoy tax-exempt status, but it is congressionally chartered. I look forward to a productive dialogue with the Red Cross Board that can clear up questions and fix problems."

Grassley began his scrutiny of the American Red Cross in the months following the 9-11 terrorist attacks when questions were raised about how the organization was using donations made to assist with recovery efforts. His oversight helped bring about a new policy that allows donors to direct how their money is to be spent. As Chairman of the Senate Committee responsible for tax policy, Grassley also has conducted a broad-based review in recent years of the non-profit sector and won approval of legislative reforms aimed at certain abuses. He continues to examine where policy changes may be needed to improve the governance of such tax-exempt organizations by their boards of directors.

The text of the letter he sent today to the Chairman of the Board of the American Red Cross follows here.

December 29, 2005

Ms. Bonnie McElveen-Hunter  
Chairman  
The American Red Cross  
17th & D St., NW  
Washington, D.C. 20006

Dear Ms. McElveen-Hunter:

The Finance Committee has taken a strong interest in the work of the Red Cross since questions

were raised about the work of the Red Cross following the 9/11 tragedy. Given that the Red Cross is a tax-exempt organization, chartered by Congress and most importantly – is designated by the federal government to play a vital role in response to disasters – it is the duty of Congress to engage in oversight to ensure that the Red Cross is performing its role effectively.

The response to Katrina and the recent resignation of the President and CEO of the Red Cross have understandably raised questions about the Red Cross. Specifically whether the current board and governance structure meets the high level of competence and engagement that Congress and the public should expect from an organization that carries such serious responsibilities.

To assist in my review of these matters, I would ask for the following information:

#### A. Board Governance

- 1) Please provide copies of all board minutes, including board minutes of any subgroup (such as the executive committee) of the board, for the last five years. Please provide a list of all material provided to board members for the last five years.
- 2) Please indicate for all board meetings and subgroup meetings of the board the attendance – who attended the entire meeting, who attended part of the meeting, who was absent – for the last five years. Please indicate what board members are elected by chartered units, members-at-large and Presidential appointees. In addition, for Presidential appointees please provide the attendance information for the last ten years.
- 3) Please provide copies of all communications between board members and the President and CEO for the last five years. This would include e-mails, faxes, memorandums, etc.
- 4) Please provide a detailed discussion of your office – the number of staff that report to you, their duties and salaries. Please compare this to your predecessor. Please provide the number of hours per week that you spend performing your duties as Chairman and provide a detailed discussion of your work and duties as Chairman. Please provide a copy of an organization chart for the Red Cross including reporting chains (including contacts and reporting chains from chapters up into headquarters).
- 5) When did the board last do a self-evaluation of the board's work and performance? Please provide a copy of that evaluation. When does the board intend to do another evaluation?
- 6) When has the board last conducted an evaluation of the effectiveness of the American Red Cross operations? Please provide a copy of the evaluation. When does the board intend to do another evaluation?
- 7) It is my understanding that when Ms. Marty Evans, the former President and CEO of the Red Cross, first took her position at the Red Cross she sought to initiate a series of reforms in governance. Please discuss these reforms and the board's response to these efforts by Ms. Evans. Please provide a copy of Ms. Evans memorandum to you "Guiding Principles for a Successful Board-Management Partnership." Please provide a copy of any response you, your staff, or other board members made to this memorandum.

8) A Red Cross spokesman states that Ms. Evans's departure was due to coordination and communication issues with the board. The American public deserves more than a papering over of the reasons for her departure. If coordination and communication is at issue, then please provide a detailed discussion of what exactly were these issues. Please provide all written memos, communications, email, etc. that support these concerns cited by the Red Cross spokesman that justify this explanation of Ms. Evans's departure.

9) Please provide a copy of all internal audits (both completed and in draft form) for the last five years.

10) Please provide a discussion of whether you believe the current governance and board structure is appropriate and adequate – including any proposed changes to the law.

11) Please provide me a detailed discussion of how the board will proceed in finding a new President and CEO of the Red Cross and the qualifications that the board is seeking. Please advise who is serving on the search committee.

#### B. Response to Disaster

1) I have heard from charities and colleagues that a top concern has been the Red Cross' poor working relationship with leaders of local charities. However, these concerns were not made of other major charities, such as the Salvation Army. I would appreciate your response to this concern, and if you agree, what the Red Cross will do to address this matter in the future.

2) The Red Cross is the lead charity for disaster relief. However, it is understandable that there are times when the Red Cross cannot reach certain populations that are in need of assistance. Often, it is local charities that fulfill this mission of disaster relief – responding to the needs of populations that the Red Cross is unable or incapable of assisting. Given the Red Cross' national presence and Congressional charter, what do you believe is the appropriate response of the Red Cross to such local charities that are providing disaster relief to families that the Red Cross is not in a position to provide relief? Under what circumstances will the Red Cross provide financial and material support to such local charities?

3) It is my understanding from press reports that the Red Cross received donations of \$568 million for tsunami recovery and has spent \$167.6 million. Please explain what the Red Cross plans to do with the remaining funds – specifically the purpose for which these funds will be spent; when the funds will be spent; and, finally, how these expenditures are in keeping with the Red Cross' role and mission. My understanding is that the Red Cross has a 5-year plan for Tsunami relief – please explain (and give examples) how this is in keeping with past Red Cross practice as I understand of responding to only the immediate aftermath of an emergency or disaster.

4) Please state the amount raised from Katrina and also the purpose for which these funds will be spent; when the funds will be spent; and, finally, how these expenditures are in keeping with the Red Cross' role and mission.

5) When you ask for funds for a specific purpose, how do you protect that designated account? Please provide a list of all your designated accounts – both fund balance and purpose. Do you use

such designated funds for any other purpose? If so, please explain and provide details.

### C. Compensation

1) Please provide copies of Ms. Evans' employment contract, deferred compensation and severance plans and any other compensation arrangements, including expense reimbursements. Please provide a copy of Ms. Evans' severance package or proposed severance package.

2) For the past three years for individuals listed in Part V of Form 990 "List of Officers, Directors, Trustees and Key Employees," and Part I "Compensation of the Five Highest Paid employees Other Than Officers, Directors and Trustees", please answer the following:

- a. Explain how you established the amount of compensation and benefits.
- b. Describe the nature of the components for each amount reported under compensation; contributions to employee benefit plans & deferred compensation; and, expense account and other allowances.
- c. Describe the duties and responsibilities that each individual performed for the Red Cross.
- d. Do the amounts reported represent the total economic benefits each individual received from the Red Cross for the year? If no, please explain what other benefits were received, including the fair market value of those benefits.
- e. Did the Red Cross establish the rebuttable presumption under section 53.4958-6 of the Foundation and Similar Excise Taxes Treasury Regulations as to the compensation and benefits reported for any of the individuals? If yes, please provide copies of all supporting documentation.
- f. If the answer is no to "e" for any of the individuals, do you have documentation supporting the reasonableness of the compensation and benefits reported? If yes, please provide a copy of this documentation.
- g. Did the Red Cross board approve the amount of compensation and benefits reported? If yes, please provide a copy of the approval for each individual.
- h. Did the Red Cross have an employment contract or any other compensatory agreement with any of the individuals? If yes, please provide a copy of the contract or agreement.
- i. Does the amount of compensation and benefits reported agree with the amount reported on each individual's Form W-2 or Form 1099? If no, please explain the difference.
- j. Did any of these individuals use any property that the Red Cross owned or leased (such as an automobile, aircraft, real estate, credit card, etc.) for any purpose other than to further the organization's exempt purposes? If yes, did the Red Cross include the value of this usage in the amount of compensation and benefits reported? Was the value included on the individual's Form W-2 or Form 1099? If your answer to either of these questions

is "No" please explain.

3) Please provide copies of all correspondence between the Red Cross or its chapters and the IRS for the last three years.

#### D. Internal Revenue Service Filings

1) Please provide a copy of the Red Cross' most recent 990.

2) Your Form 990 2003 indicates \$60 million in government grants. Please provide a detailed list of all grants and contracts (including reimbursement contracts) that the Red Cross has received from the Federal, state and local government since July 1, 2003. Specifically, the amount, the purpose of the funds and who granted/awarded the funds.

3) Please provide copies of Form 990-Ts for the last five years.

4) Part IX lists Pathogen Removal and Diagnostic Technologies. Please provide a detailed discussion of this entity, a copy of all organizing documents, and tax returns for the last five years. For the last five years has any Red Cross employee, board member, etc. receive any compensation from this organization?

5) The 2003 Form 990 includes Form 5471 – Information Return of U.S. Persons with Respect to Certain Foreign Corporations. It lists holdings with Boardman Indemnity, LTD based in Bermuda. Please explain why the Red Cross made this decision and please provide copies of all letters, analysis and memos that discuss this decision, particularly to house this wholly owned insurance subsidiary in Bermuda. In addition, does this company provide services only to Red Cross and its affiliates.

6) Please provide for the last three years the amount of money that the Red Cross spends on government relations and public relations. Please provide copies of all contracts that the Red Cross has entered into for public relations.

Thank you for your time and assistance. Please provide the answers to these questions by January 30, 2006.

Cordially yours,

Charles E. Grassley  
Chairman

cc: Senator Baucus  
Senator Lott  
Chairman Thomas  
Congressman McCrery  
Congressman Thompson