

CONFIDENTIAL MEMORANDUM

TO: Ron Lund, General Counsel

FROM: Dr. Healy

RE: April Executive Committee Meeting Follow Up

DATE: April 16, 2001

cc: Harold Decker
Kate Berry

Recent events have made it clear that the American Red Cross must ensure that chapters comply with our Charter, bylaws and standards. The identification of serious potentially criminal financial mismanagement at the Hudson County Chapter is one urgent example, but many other examples of laxness cannot be ignored.

I was hopeful that the seriousness of this problem and the potential vulnerabilities it creates for the American Red Cross would be an awakening to the Executive Committee during their meeting on April 13. You described the facts of the Hudson County Chapter case very well. We provided many other examples recently identified to illustrate that compliance, adherence to standards, and a resentment and resistance to audits by national was a systemic problem. You also well explained the Board of Governors' responsibilities under the Corporate Charter and Bylaws and emphasized that the Board of Governors and management are responsible for what is done by chapters as they are units of the single corporation, not separate entities.

I am concerned that the discussions by the Executive Committee did not reflect an appropriate sense of outrage regarding the offenses committed by the Hudson County Chapter Executive against the community he was to be serving or against the American Red Cross. I believe there was little if any sense of urgency regarding evaluating other chapters where there may be problems, nor enthusiasm or support of management for designing more

effective control mechanisms and compliance systems. To the contrary, there were statements that the Board had dealt with this in the past by firing a few executives and boards and the situation was not unusual as isolated events and we should not overreact. (It sounds like the historic response to 483s.) The fear expressed by some Board members troubled me. The statement that touching the chapters was like touching the "third rail," was a Board warning to management about addressing system-wide issues, but less clear was their support for such actions. Jon Huntsman was the only one to express outrage, concerns about the seriousness of these issues and worry that the fear expressed by one of our internal auditors (describing chapter executives as "kings;" autonomous; all powerful; untouchable; defiant) should not be tolerated.

It would seem to me that we need to get solid Board support behind the corrective action plan we have laid out or it will be ineffective and unenforceable. Moreover, without strong Board support, increased management oversight by National will only become a source of strife and division within an organizational culture that is already divided.

Please follow up with the ad hoc Board group on governance to be chaired by ~~XXXXXX~~ and to include ~~XXXXXX~~ to review the attached list of actions and help develop the Board's clear position with regard to the disposition of these local and system-wide matters. We need to find a way for the Board to thoughtfully consider these issues at their May meeting. Meanwhile, we will proceed with our outlined plan with implicit Board support.