



**American
Red Cross**

From Challenge to Action:

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

June 2006

Contents

Executive Summary	3
I. Overview	4
II. The Hurricanes	5
III. Challenges to Red Cross Programs, Systems and Controls	6
A. Relief Operation Challenges	7
B. Financial Challenges	9
C. Technology Limitations	10
D. Internal Control Challenges	11
E. Fundraising Challenges	13
IV. Action—Strategy for Resolving Challenges	14
Key Area I—Improving Business and Operational Capabilities	14
Key Area II—Implementing Vigorous Internal Controls	17
Key Area III—Building Partnerships	19
V. Conclusion	22
VI. Appendices	23
Meals and Snacks	23
Family Assistance Cases Opened	23
Red Cross Workers	24
Unprecedented Scale	24

Executive Summary

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

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

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

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

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

I. Overview

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

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

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

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

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

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

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

II. The Hurricanes

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

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

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

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

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

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

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

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

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

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

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

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

III. Challenges to Red Cross Programs, Systems and Controls

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

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

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

A. RELIEF OPERATION CHALLENGES

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

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

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

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

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

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

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

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

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

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

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

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

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

B. FINANCIAL CHALLENGES

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

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

C. TECHNOLOGY LIMITATIONS

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

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

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

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

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

D. INTERNAL CONTROL CHALLENGES

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

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

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

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

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

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

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

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

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

E. FUNDRAISING CHALLENGES

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

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

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

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

IV. Action—Strategy for Resolving Challenges

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

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

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

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

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

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

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

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

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

The Red Cross will expand its capacity to meet the needs of disaster victims. By July 2006, it will—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

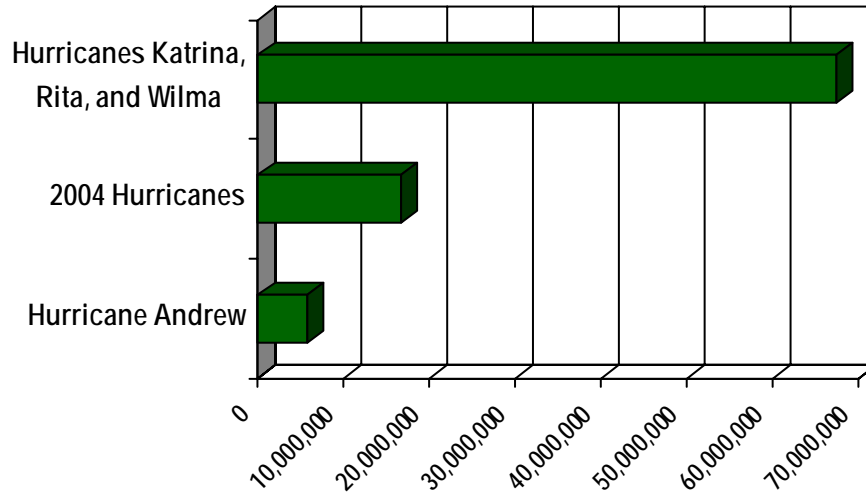
- Establish a National Corporate Advisory Council, which will provide open communication and a relationship-building vehicle for corporations with the Red Cross, while providing the Red Cross with a better understanding of the needs, issues and challenges of our corporate partners. The council will provide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

V. Conclusion

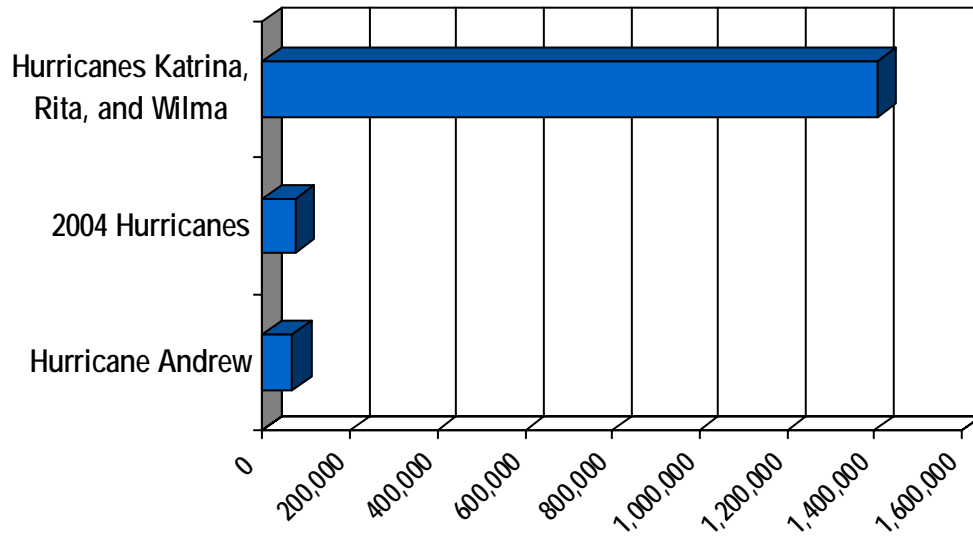
This paper describes the actions undertaken by the American Red Cross to address the system weaknesses exposed by the historic hurricanes of 2005. Even as it takes these steps, the organization is embarking on strategic changes that will more broadly build upon these tactical improvements. It is seeking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

VI. Appendices

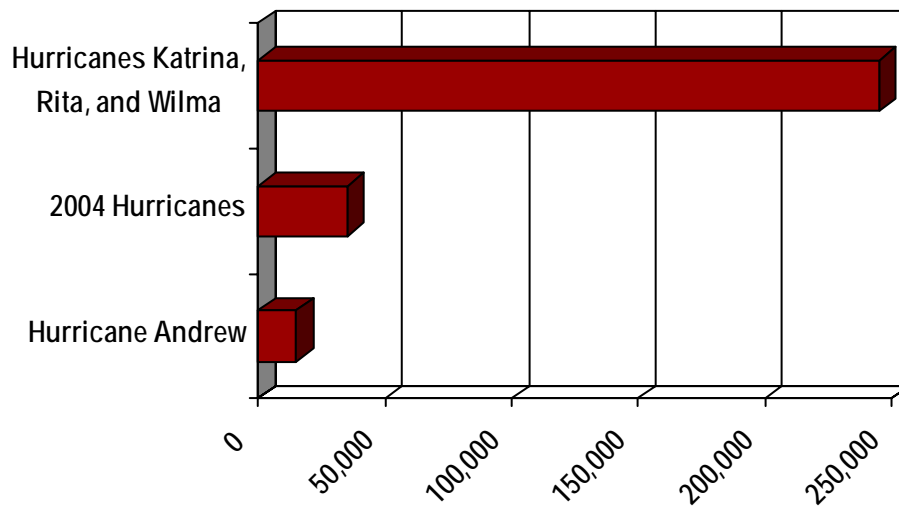
Meals and Snacks



Family Assistance Cases Opened



Red Cross Workers



Unprecedented Scale

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