



**American  
Red Cross**

# **Blood, Money & Apologies**

*How the Liberty Fund Damaged the Public Trust  
in the American Red Cross*

# Pre-Crisis Concerns



## ■ Money Management

### ■ 1995 Oklahoma City Bombing

- Raised \$13 Million in donations
- Only dispersed \$2.6 Million in Oklahoma City

### ■ 1997 Red River Flooding

- Minnesota Attorney General held public hearings regarding Red Cross fundraising
- Organization later distributed \$4 Million

# Pre-Crisis Concerns



## ■ Money Management

- More than \$1 Million stolen internally from NJ chapter
- Boston chapter unable to account for how donations spent
- Local chapters dipping in to National Disaster Fund to fill gaps in chapter funding
- Millions \$\$ in fines – repeated violations in blood safety rules

# Pre-Crisis Concerns

## ■ Structural Challenges

- 750 chapters across country
- More than 35,000 employees
- 1.2 Million volunteers
- 50-member board of directors



9/11



# Pre-Crisis

## ■ Liberty Fund Creation

- Set up just days after 9/11
- Created by Red Cross

CEO Dr. Bernadine Healy

- W/out consult from board



# Liberty Fund Crisis



## ■ Fund Parameters

- **Money held separate from general disaster relief fund**
  - First time RC ever set up a disaster-specific fund
  - Many cite as beginning of crisis
- **Cash payouts to families of deceased**
  - Fund initially intended to provide supplies/services
  - Healy initiates pledge to provide \$20,000 cash to each family of a deceased victim

# Hot Button Issue...



## ■ Supporting Other Efforts

- **Healy announces that \$200 Million of Liberty Fund will be used to support other causes**
  - Red Cross had more money than they needed for 9/11 assistance
  - In keeping with the advertised intent of the fund in Healy's mind... "a long period of uncertainty and recovery"
  - Money not limited solely to 9/11 uses

# Liberty Fund Crisis



## ■ Fund Purpose (1)

*“...support the immediate and emerging efforts of the American Red Cross to alleviate the human suffering brought on by the attacks of September 11...”*

Posted on Red Cross Website after 9/11

# Liberty Fund Crisis



## ■ Fund Purpose (2)

*“...the money would be used for the specific requirements outlined and approved by our board, which were the events related to Sept. 11 and to the aftermath, the healing of America, the preparations for future attacks...”*

# Liberty Fund Crisis



## ■ Message Backlash

### ■ Stakeholders disagreed w/ Healy on fund purpose

- American public, donors, media, employees, volunteers, government,
- Media relentless in attacking Healy and Red Cross
- Questions about how the money is handled

### ■ Healy Resigns on 10/26/01

### ■ Harold Decker named interim CEO

# Liberty Fund Crisis



- **Fund Closed – 10/31/01**
  - **Red Cross announces they will no longer seek donations for Liberty Fund**
  - **Reported - Had all the money they needed**
  - **Announced – hold back \$200 million for unforeseen 9/11 needs & future attacks**
    - Totaling more than \$547 Million at that time

# Liberty Fund Crisis



- **Congressional Hearings – 11/6/01**

- **House subcommittee on Oversight & Investigations**

- Aimed at understanding the true intent of the fund
- Healy still contended that message was clear...  
“this disaster and the aftermath”
- **Disassociation Method of Apologia Theory**
  - Goal was to defend decision – not apologize
  - Protect organization
  - May have appeared to been mishandled, but not

# Liberty Fund Crisis



- **Congressional Hearings – 11/6/01**
  - **House subcommittee on Oversight & Investigations**
    - Aimed at understanding the true intent of the fund
    - Probing Questions by Chairman Tauzin:

**“Why did you announce that the Red Cross had raised enough money to help the victims of the terrorist attack and will stop asking for donations?”**

**Do you have some prior knowledge as to how many new terroristic attacks there are going to be?”**

# Liberty Fund Crisis



- **Congressional Hearings – 11/6/01**
  - House subcommittee on Oversight & Investigations

**“Here is the problem... when you created the fund, you talked about an event (9/11) as the genesis for the fund...”**

**The fact that you say you have enough money in the fund now... seems to bolster that position that it was strictly for these victims...”**

# Liberty Fund Crisis



- **Congressional Hearings – 11/6/01**
  - **House subcommittee on Oversight & Investigations**
    - Michael Farley, VP of Chapter Fundraising
    - **Farley** suggests that intent and execution may not have been “as clear as it could have been”
  - **Redefinition Method of Apologia Theory**
    - Organization did not intend to cause harm
    - Still takes no responsibility for crisis
    - Avoids ownership, insists a misunderstanding

# Liberty Fund Crisis



## ■ Red Cross Response – 11/1/01

### ■ Offer refund of donations

- Announced refund available for any donor who requested it
- Continued to defend the decision to hold \$200 million back for future terrorist attacks

# Liberty Fund Crisis



- **Policy Reversal – 11/14/01**
  - **Red Cross releases announcement of funding change**
    - Full-pg. advertisements stating “The American Red Cross Hears America”
    - Pledges full release of Liberty Fund \$ to families and victims of 9/11, releasing the “reserve”
  - **Conciliation Method of Apologia Theory**
    - Actual apology from organization
    - Takes responsibility
    - Expresses regret, asks for forgiveness

# Liberty Fund Crisis



## ■ Policy Reversal – 11/14/01

**“We deeply regret that our activities over the past eight weeks have not been as sharply focused as America wants, nor as focused as the victims of this tragedy deserve.”**

*- Interim President Harold Decker*

# Post-Crisis

- Former Senate Majority Leader **George Mitchell** named independent overseer of fund
- Created a **celebrity cabinet** to garner favorable press
- **BBB** removed seal of approval
- Decrease in donations leads to **employee layoffs**
- **High turnover** - 8 CEO's since Healy in 2001
- **More scrutiny** of nonprofits



# Post-Crisis

## ■ Mitchell announces:

- \$240 million more given directly to families of victims
- \$80 million directed to mental health services
- \$25 million distributed to maintain support centers
- \$15 million to support “non-traditional families”

■ **“To its credit, the Red Cross acknowledges its mistakes and changed some of its policies that were mistaken”**

- Overseer George Mitchell



# Post-Crisis



## ■ Where do we go from here?

- **2002** – Red Cross criticized for aggressively disbursing Liberty Funds to those peripherally impacted to draw down the fund
- **2002** –American Competitiveness and Corporate Accountability Act, known as “**Sarbanes-Oxley**”
  - Strict ethical standards for operations / governance
  - Talk of creating a non-profit version, response to Red Cross
- **2005 - Hurricane Katrina** - Red Cross CEO Marsha Evans forced out amid accusations of mismanagement
- **2011 – Haitian Earthquake** - Red Cross CEO Gail McGovern criticized for not spending donations fast enough since 2010 disaster

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# Thank You!

Questions?



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