



Report to the Ranking Member,
Committee on Homeland Security,
House of Representatives

September 2015

AMERICAN RED CROSS

Disaster Assistance Would Benefit from Oversight through Regular Federal Evaluation

GAO Highlights

Highlights of [GAO-15-565](#), a report to the Ranking Member, Committee on Homeland Security, House of Representatives

Why GAO Did This Study

The Red Cross is the nation's largest nonprofit organization involved in disaster relief. The organization provides services such as sheltering and food assistance, and it has a leadership role in the federal disaster response framework. However, questions have been raised over its ability to respond effectively to large disasters. GAO was asked to examine the organization's disaster services.

This report addresses (1) the key factors affecting the nature and extent of the Red Cross's disaster services, (2) how it coordinates with the federal government on disaster assistance, and (3) what external oversight exists of its disaster services. GAO reviewed relevant policy documents and federal statutes and interviewed officials from the Red Cross and FEMA; interviewed staff involved in a nongeneralizable sample of three disasters from 2012 to 2014 that varied in magnitude, type, and location; and interviewed officials from federal agencies with a role in Red Cross oversight, six state attorney general offices selected to achieve diversity in their approaches to charity oversight, and several nonprofit organizations.

What GAO Recommends

Congress should consider establishing a federal mechanism for regular, external evaluations of the Red Cross's performance in domestic disasters. In its comments, the Red Cross neither agreed nor disagreed with GAO's matter for congressional consideration, but noted it is open to participating in additional evaluation activities convened by FEMA or other government partners.

View [GAO-15-565](#). For more information, contact Andrew Sherrill at (202) 512-7215 or sherrilla@gao.gov.

September 2015

AMERICAN RED CROSS

Disaster Assistance Would Benefit from Oversight through Regular Federal Evaluation

What GAO Found

Key factors affecting the nature and extent of the American Red Cross's (Red Cross) disaster assistance include its standard set of services and the unique needs of affected communities. The Red Cross is involved in three phases of emergency assistance: immediate response, longer-term recovery, and preparedness. For response, it has a standardized set of services and procedures which may be adjusted based on unique local needs or to avoid duplicating other organizations' work, according to Red Cross officials and documents. In recovery and preparedness, officials said decision-making has historically not been as standardized. In recovery in particular, the organization's services have been significantly influenced by the amount of donations received following particular disasters. However, the Red Cross is implementing a more standardized approach in both of these areas.

The Red Cross and the federal government coordinate in disasters largely by sharing information. For example, the Red Cross and the Federal Emergency Management Agency (FEMA) share information on the resources available for the response to major disasters, and on where assistance is needed during recovery. While coordination in response to disasters is clearly established in written agreements, the Red Cross's role in recovery has not been as clearly defined up to now. FEMA and the Red Cross's 2010 memorandum of agreement laid out 18 tasks for which the Red Cross was responsible, but only three related to recovery, such as helping to create community-wide recovery strategies. FEMA regional staff told us the agreement did not reflect other tasks the Red Cross may perform during recovery, such as providing case management. The two organizations signed a revised agreement with additional details on coordination during recovery that was executed on July 28, 2015.

The federal government, states, and the nonprofit sector conduct oversight of the Red Cross that is focused on governance and financial issues, not the organization's performance in disasters. Among federal agencies, the Internal Revenue Service reviews data on expenditures, revenues, and governance that the Red Cross is required to submit annually to maintain its tax exempt status; the Department of Defense, as required by statute, reviews the organization's annual financial statement; and FEMA and the State Department monitor its services in the rare cases when they fund those services. In addition, state attorneys general have an important role in investigating fraud and mismanagement at nonprofits, although according to one expert, states typically focus on newer, less established nonprofits rather than the Red Cross. Finally, a number of nonprofit watchdogs monitor the governance and financial practices of charitable organizations, including the Red Cross, with the aim of informing decisions about charitable giving. Despite these various forms of oversight, no regular, independent evaluations are conducted of the impact or effectiveness of the Red Cross's disaster services. While not a federal agency, the Red Cross is an instrumentality of the United States and has a critical role under the nation's disaster response system. Consistent with federal internal control standards on analyzing and managing risks associated with achieving federal objectives, the federal government has a clear stake in ensuring that proper oversight of the Red Cross takes place.

Contents

Letter		1
	Background	3
	Key Factors That Drive Red Cross's Disaster Assistance Include Its Standard Set of Services and the Needs of Affected Communities	12
	The Red Cross's Coordination with the Federal Government Focuses Primarily on Information Sharing	17
	Federal, State, and Nonprofit Oversight of the Red Cross Focuses on Governance and Financial Practices Rather Than Disaster Performance	24
	Conclusions	37
	Matter for Congressional Consideration	38
	Agency Comments and Our Evaluation	38
Appendix I	Emergency Support Functions (ESF) and Recovery Support Functions (RSF) that Include the Red Cross	41
Appendix II	Comments from the American Red Cross	43
Appendix III	Comments from the Federal Emergency Management Agency	48
Appendix IV	GAO Contact and Staff Acknowledgments	50
Related GAO Products		51
Figures		
	Figure 1: Red Cross's Annual Expenditures on Domestic Disaster Services, 2010-2014	5
	Figure 2: How the Red Cross and Federal Emergency Management Agency Work Together under Emergency Support Function-6 to Lead Mass Care Services in Major Disasters	18

Abbreviations

CDC	Centers for Disease Control and Prevention
DHS	Department of Homeland Security
DOD	Department of Defense
ESF	Emergency Support Function
FEMA	Federal Emergency Management Agency
GSA	General Services Administration
HHS	Department of Health and Human Services
IAA	Interagency Agreement
IFRC	International Federation of Red Cross and Red Crescent Societies
IG	Inspector General
IRS	Internal Revenue Service
NDRF	National Disaster Recovery Framework
NGO	Nongovernmental organization
NRF	National Response Framework
OFDA	Office of U.S. Foreign Disaster Assistance
USAID	U.S. Agency for International Development

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September 9, 2015

The Honorable Bennie G. Thompson
Ranking Member
Committee on Homeland Security
House of Representatives

The American Red Cross (Red Cross) plays a key role in the nation's system for disaster relief. One of the organization's purposes, as established over a century ago by its federal charter,¹ is providing relief to victims of domestic and international disasters. In part, the Red Cross's role in disaster relief is to provide direct services to victims of disasters, such as sheltering or food assistance. In fulfilling this role, the organization relies primarily on private donations and volunteers, with only a small amount of funds coming from the federal government. In the 12 months that ended June 30, 2014, the organization spent about \$360 million on domestic disaster relief and about \$130 million on international relief and development. In addition to this direct service role, the federal government has also assigned the Red Cross critical responsibilities for leading and coordinating other organizations' disaster relief work. Under the National Preparedness System, the Red Cross and the Federal Emergency Management Agency (FEMA) are to work closely together in managing the overall mass care effort in the immediate aftermath of major disasters.²

With its long history of providing disaster relief, statutorily designated mission, and extensive resources, the Red Cross has a prominent position among organizations involved in disaster response. At the same time, some of its decisions and policies with national ramifications have faced scrutiny over the years. For example, questions have been raised about its ability to provide services efficiently following a large disaster

¹ A federal charter is a statute that establishes a corporation and typically provides for its basic characteristics such as name, purpose, governance structure, and means of public accountability. Federal charters have been used to create a variety of corporate entities, including banks, government-sponsored enterprises, commercial corporations, venture capital funds, and patriotic, fraternal, and charitable organizations.

² While the Red Cross is assigned other duties under its charter, in this report we focus on the organization's domestic disaster-related services.

and to meet the needs of certain sub-populations, such as those with disabilities. You asked us to examine the Red Cross's involvement in disaster relief. In this report we address (1) what key factors affect the nature and extent of the Red Cross's disaster-related services; (2) how the Red Cross coordinates with the federal government on disaster assistance; and (3) what external oversight exists of the Red Cross's disaster services.

To understand Red Cross's general decision-making process about disaster services and coordination with the federal government and other stakeholders, we reviewed Red Cross policy, procedure, and financial documents and its formal agreements with FEMA and other organizations, and interviewed Red Cross headquarters officials. We did not assess the effectiveness or sufficiency of Red Cross policies or procedures. We also reviewed FEMA documents and interviewed officials from FEMA, the General Services Administration (GSA), the State Department, and the U.S. Agency for International Development (USAID), agencies that coordinate with Red Cross on disaster relief. To understand Red Cross decision-making and coordination in specific disasters, we selected three events that both the Red Cross and the federal government were involved with: Hurricane Sandy, which affected a number of states on the east coast (October 2012); tornadoes that affected several counties in Oklahoma (May 2013); and floods in northern Florida (April 2014). We selected these events to achieve diversity in type of disaster; magnitude of disaster, based on the scale of Red Cross's response; and geographic location. For each event, we interviewed Red Cross divisional staff who managed the organization's response and FEMA regional staff, and, when available, reviewed FEMA and other federal documents such as post-response evaluation reports. We did not assess the effectiveness or efficiency of the Red Cross's response to any domestic or international disasters or of specific efforts such as the Red Cross's implementation of the Move-In Assistance Program following Hurricane Sandy. In assessing how Red Cross works with the federal government, we considered key features of effective interagency coordination that have been previously identified by GAO.³

³ GAO, *Managing For Results: Key Considerations for Implementing Interagency Collaborative Mechanisms*, [GAO-12-1022](#) (Washington, D.C.: Sept. 27, 2012).

To understand the federal oversight of the Red Cross's disaster assistance, we reviewed documents and interviewed officials from the Internal Revenue Service (IRS), the Department of Defense (DOD), USAID, and FEMA, and interviewed officials from the State Department. To understand states' oversight of the Red Cross, we interviewed charity regulation officials from three states (Colorado, Missouri, and New York) and obtained information by e-mail from officials in three additional states (Hawaii, Michigan, and Pennsylvania). We selected these six states based on expert recommendations to achieve diversity in state approaches to charity oversight. Finally, to understand the role of the nonprofit sector in Red Cross oversight we interviewed officials and reviewed websites from several organizations that monitor or set standards for charities, such as Charity Navigator and BBB Wise Giving Alliance. We did not assess or independently corroborate the findings of these federal, state, or nonprofit organizations, or of any media or other reports on the Red Cross's performance in disasters. In reviewing the existing oversight of the Red Cross, we identified criteria for effective evaluation of disaster services that have been developed by organizations such as the Urban Institute.⁴ In addition, we used prior GAO work and federal internal control standards as criteria.⁵

We conducted this performance audit from February 2014 to September 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Since its founding in 1881, the Red Cross has provided relief services after disasters ranging from house fires to hurricanes and floods. Over the past five years, the Red Cross's annual expenditures on domestic disaster relief services have generally been between about \$250 million

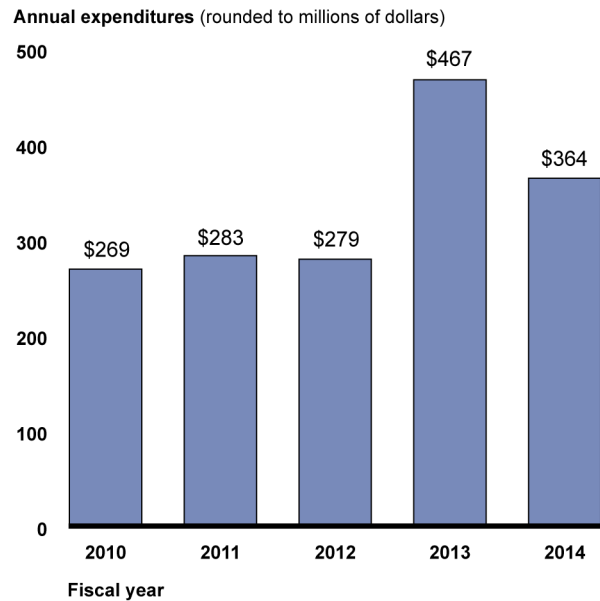
⁴ H. Hatry, M. Abravanel, and S. Rossman, *What Happens to Victims? A Research Guide for Disaster Response Studies*. Urban Institute (Washington, D.C.: Mar. 2006).

⁵ GAO, *Tax-Exempt Sector: Governance, Transparency, and Oversight Are Critical for Maintaining Public Trust*, [GAO-05-561T](#) (Washington, D.C.: Apr. 20, 2005) and *Standards for Internal Control in the Federal Government*, AIMD-00-21.3.1 (Washington, D.C.: Nov. 1999).

and \$400 million (see fig. 1).⁶ The Red Cross raises money for disaster relief primarily from private donors—e.g., individuals, corporations, and foundations—and responds to an average of 70,000 domestic disasters annually. According to Red Cross officials, less than 1 percent of the funds the organization spent for domestic disaster relief in fiscal year 2014 came from the federal government. Following especially large disasters, the Red Cross may receive substantially increased levels of donations. For example, the Red Cross reported that it spent over \$300 million on Hurricane Sandy relief, including funds donated specifically for this purpose and funds it opted to allocate for this purpose. The organization that received the second largest amount of donations following Hurricane Sandy was the Robin Hood Foundation, at \$75 million. Additionally, in providing disaster assistance the Red Cross relies largely on a volunteer workforce; Red Cross officials told us that about 90 percent of the Red Cross’s workforce in disasters is composed of volunteers.

⁶ The Red Cross’s fiscal year runs from July 1 through June 30. In the fiscal year that ended June 30, 2014, the Red Cross reported spending \$364 million on domestic disaster services, representing 11.9 percent of the organization’s total spending of \$3.062 billion. American Red Cross, *Annual Report 2014* (Washington, D.C.: 2014).

Figure 1: Red Cross's Annual Expenditures on Domestic Disaster Services, 2010-2014



Source: Red Cross's annual Consolidated Financial Statements, Fiscal Years 2010 – 2014. The Red Cross's fiscal year runs from July 1 to June 30. | GAO-15-565

In the immediate response to disasters, the Red Cross provides services such as sheltering, food assistance, and bulk distribution of relief supplies to victims. During the recovery phase, which follows response and includes actions to help individuals and communities return to normal, the Red Cross may assist communities with recovery planning and provide direct client assistance, such as covering the deposit for a victim's new rental unit.⁷ It also has a number of preparedness programs including mobile apps with information on what to do during a disaster, pre-disaster planning, and public education initiatives on topics such as first aid and child care. The American Red Cross is also active in international disaster

⁷ During the initial stage of recovery services, the focus is on restoring basic services such as public health services and utilities, and getting displaced individuals into temporary housing. In the longer term, the focus of recovery efforts shifts to redevelopment and rebuilding of damaged areas, a process which can take years or even decades. For more information see GAO, *Disaster Recovery: FEMA's Long-Term Assistance Was Helpful to State and Local Governments but Had Some Limitations*, [GAO-10-404](#) (Washington, D.C.: Mar. 30, 2010).

assistance. Working with Red Cross and Red Crescent organizations from other countries, the American Red Cross provides relief supplies, financial assistance, and technical assistance via disaster response and recovery specialists. In 2013, the American Red Cross reported that it helped an estimated 1.3 million people affected by flooding, storms, droughts, conflicts, and other disasters in 24 foreign countries.⁸

Red Cross's Federal Charter

The Red Cross has had a federal charter since 1900. Although the original charter was repealed and the subsequent charter has been amended several times, most recently in 2007, the purposes and duties assigned to the Red Cross in 1900 remain essentially the same today.⁹ The charter states the Red Cross is to:

- carry out a system of national and international relief in time of peace, and to apply that system in mitigating the suffering caused by pestilence, famine, fire, floods, and other great national calamities, and to devise and carry out measures for preventing those calamities;
- provide volunteer aid in time of war to sick and wounded members of the Armed Forces in accord with the Geneva Conventions and any other similar treaties, conventions, or protocols to which the United States may agree, and to perform the duties of a national Red Cross society; and
- provide voluntary relief and act as a medium of communication between the people of the United States and the Armed Forces of the United States.¹⁰

The most recent amendment to the charter was made by the American National Red Cross Governance Modernization Act of 2007 (Modernization Act),¹¹ which modernized the Red Cross's governance structure. It defined the role of the Board of Governors as, among other

⁸ American Red Cross, *Global Impact Report, Fiscal Year 2013* (Washington, D.C.: 2013).

⁹ The Red Cross charter is codified at 36 U.S.C. §§ 300101 – 300113.

¹⁰ Beyond the duties laid out in its charter, the Red Cross also is involved in several other activities, the largest of which is its biomedical services business which collects, tests, and distributes blood and blood components throughout the United States. According to the Red Cross, it supplies more than 40 percent of the blood and blood products in the United States. About two-thirds of its total spending is related to its blood supply work. Biomedical services were outside of the scope of our work.

¹¹ Pub. L. No. 110-26, 121 Stat. 103.

things, overseeing the management of the organization's business and affairs. It reduced the size of the Board from 50 members to between 12 and 20 members and provided for the election of members at the Red Cross annual meeting. As with prior versions of the charter, the President continues to have the authority to appoint the Board chairman.¹² As a result of the Modernization Act, the President no longer appoints federal officials to the Board of Governors; however, the act requires the President to appoint federal officials as members of a separate advisory council to the Board.¹³ This advisory council, which has since been termed the Cabinet Council, is required to meet at least annually with the Board of Governors.

The act made several other notable changes to the Red Cross charter as well. For example, it stated that it is in the national interest to confirm the Red Cross's status as an instrumentality of the United States and amended the Red Cross's charter to clearly reflect that designation, which

¹² When the original charter was repealed in 1905, the new charter, stating that the importance of the Red Cross's work required government supervision, provided for a governing committee of 18 members, with 6 including the chairman to be appointed by the President. To further increase government supervision, the 1905 charter required the Red Cross to submit an annual report of its proceedings, including an itemized report of receipts and expenditures to the War Department, which was required to audit and transmit to Congress. The current version of the charter assigns the audit to the Secretary of Defense. 36 U.S.C. § 300110.

¹³ The advisory council is to consist of 8 to 10 members who are principal officers of the executive departments or senior officers of the Armed Forces who are qualified to contribute to carrying out the programs and purposes of the Red Cross. At least one but not more than three members of the advisory council must be members of the Armed Forces. 36 U.S. C. 300104(d).

confers certain tax and other advantages.¹⁴ It also required the Red Cross to establish an Office of the Ombudsman whose duties and responsibilities are to be set by the Red Cross; this Office reports directly to the Red Cross Chief Executive Officer and the Board of Governors. The Ombudsman Office is required to report annually to Congress any trends and systematic matters it has identified as confronting the organization.¹⁵ It provides consulting, coaching, mediation and facilitation to help resolve issues identified by Red Cross employees, volunteers, and the general public across several areas, including compensation and benefits, career progression and supervision, peer relationships, safety and health, administration, and service. The Ombudsman Office does not

¹⁴ 36 U.S.C. § 300101(a). The Red Cross has long been recognized by the courts as an instrumentality of the United States, but the determination of its legal status has varied depending on the context of the examination. In 1966, in a case brought by the United States and the Red Cross, the U. S. Supreme Court ruled that the Red Cross, as a virtual “arm of the government,” was an instrumentality of the United States, and as such, was immune from state taxation. As a result, the court held that Colorado could not impose state unemployment taxes on the wages paid to Colorado-based employees of the Red Cross. *Department of Employment v. United States*, 385 U.S. 355 (1966). And in a suit brought by the United States against the City of Spokane, to preclude its collection of tax on lawfully conducted gambling activities, the Court of Appeals for the Ninth Circuit affirmed a District Court’s decision that the city could not impose a tax on the proceeds of the bingo operations of a local chapter of the Red Cross because the bingo games were a governmental function of an instrumentality of the United States. *United States v. City of Spokane*, 918 F. 2d. 84 (9th Cir. 1990). The court distinguished an earlier case (*Irwin Memorial Blood Bank v. American Nat’l Red Cross*, 640 F.2d 1051 (9th Cir. 1981)) where it had held that the Red Cross was not subject to the Freedom of Information Act, pointing out that its determination that the Red Cross was not an agency for purposes of that statute, did not affect the determination that the Red Cross was an instrumentality of the government. A number of federal courts have considered whether, as the Red Cross has argued, that, as an instrumentality of the United States, the Red Cross is immune from jury trials and or punitive damages. Although the courts have reached differing conclusions, they have noted that the Red Cross performs a variety of governmental functions and based their conclusions, in part, on whether the jury trials or punitive damages would interfere with the Red Cross’s performance of those functions. See *Tesfa v. American Red Cross*, 2013 WL 5707849 (S.D. Ohio) and cases cited therein.

¹⁵ 36 U.S.C. § 300112(b)(1). Over the past two fiscal years (2013 and 2014), the Ombudsman received contacts from, respectively, 979 and 1,036 people—including members of the general public, staff, and volunteers—who raised, respectively, 1,406 and 1,374 issues. A total of 153 issues (11 percent) in 2013 related to the Red Cross unit tasked with disaster relief; the greatest number of those issues involved service delivery. In 2014, issues related to disaster assistance were included in the category of humanitarian services, and according to Red Cross officials comprised 24 percent of the 521 issues in this category. Red Cross, *Office of the Corporate Ombudsman, Fiscal Year 2013 Annual Report* (Washington, D.C.: Feb. 2014), and *Office of the Corporate Ombudsman Fiscal Year 2014 Annual Report* (Washington, D.C.: Jan. 2015).

have investigative authority.¹⁶ The act also provides that the Comptroller General of the United States, the head of the U.S. Government Accountability Office, is authorized to review the corporation's involvement in any federal program or activity the government carries out under law.¹⁷

The United States has made land available to the Red Cross for use in its work in cooperation with the federal government and its responsibilities under its charter. Specifically, the Red Cross uses one parcel of land in the District of Columbia, at no charge, and another parcel, also in the District of Columbia, under a 99-year lease for which it paid one dollar.¹⁸ On the first parcel, there are three buildings which it uses as its headquarters and for ceremonial purposes. Although the buildings are owned by the United States, the Red Cross is responsible for their care and maintenance. On the second parcel, the Red Cross constructed and owns a building that it uses for other headquarters purposes. For tax purposes, the District of Columbia has assessed the combined value of the two parcels of land on which the Red Cross buildings sit at \$128 million.¹⁹ Officials at GSA, which oversees federal property, told us they are unaware of other nonprofit organizations with similar arrangements with the federal government.

¹⁶ Red Cross officials told us the organization has an Office of Investigations, Compliance, and Ethics which conducts investigations. They also told us they have an internal audit office.

¹⁷ 36 U.S.C. § 300111. GAO supports the Congress in its legislative and oversight responsibilities by investigating the use of public funds and conducting audits and evaluations of federal programs and activities as provided in its authorizing legislation. 31 U.S.C. 712, 717. GAO's work extends to virtually every aspect of federal operations, including grantee and contractor activities funded by the federal government. On occasion, GAO has reviewed certain aspects of the Red Cross's disaster operations in response to congressional requests. For example, see *GAO National Disaster Response: FEMA Should Take Action to Improve Capacity and Coordination between Government and Voluntary Sectors*, [GAO-08-369](#) (Washington, D.C.: February 27, 2008); and *Voluntary Organizations: FEMA Should More Fully Assess Organizations' Mass Care Capabilities and Update the Red Cross Role in Catastrophic Events*, [GAO-08-823](#) (Washington, D.C.: Sept. 18, 2008).

¹⁸ 36 U.S.C. § 300108 and Pub. L. No. 156, 61 Stat. 241 (1947), as amended by Pub. L. No. 100-637, 102 Stat. 3325 (1988).

¹⁹ In March 2015, GSA officials provided the tax assessment value of the land at \$63.6 million for the parcel on which the three buildings sit (colloquially called Red Cross Square) and \$64.4 million for the parcel of the fourth building. The value of the buildings is not included in these amounts.

In 2010, to assist the Red Cross in carrying out the duties identified in its federal charter, the Federal Supply Schedules Usage Act of 2010²⁰ gave the Red Cross access to the Federal Supply Schedules Program. Operated by GSA, the program is a means of buying goods and services while using the government's purchasing power and taking advantage of overall purchasing volume, thereby reducing costs to customers, who are typically federal agencies.²¹ While this act also gave other qualified disaster relief organizations—many of which also have non-relief activities—access to the Federal Supply Schedules Program, it limits them to using the program for emergency preparedness and disaster relief. In contrast, the Red Cross is specifically authorized to use the program for any purpose identified in its charter.²²

The Nation's Disaster Response System and Red Cross's Role

The Post-Katrina Emergency Management Reform Act of 2006 called for the establishment of a National Preparedness System.²³ As part of that system, FEMA has developed various disaster-related coordinating documents, called Frameworks. Those providing a role for the Red Cross are:

- National Response Framework (NRF).²⁴ This document is a guide for how public and private entities respond to all types of disasters and emergencies. The NRF lays out roles for a variety of organizations across 14 emergency support functions (ESF), which are intended to bring together the capabilities of federal agencies and other partners. Each ESF has a designated ESF coordinator, a federal agency that coordinates the work of the ESF overall; one or more primary

²⁰ Pub. L. No. 111-263, § 2, 124 Stat. 2787 (codified at 40 U.S.C. § 502(e)).

²¹ The Federal Supply Schedules Usage Act of 2010 also authorized the use of the program by state and local governments for goods or services for disaster related preparedness and response. *Id.* at § 4, 124 Stat. 2788, codified at 40 U.S.C. § 502(d)(1).

²² GSA officials told us that they could not determine the extent to which the Red Cross has used the program to date or the estimated savings to the Red Cross from using the Schedules to date.

²³ Pub. L. No. 109-295, § 644, 120 Stat. 1355, 1425 (2006), codified at 6 U.S.C. § 744. The Post-Katrina Act was enacted as Title VI of the Department of Homeland Security Appropriations Act, 2007.

²⁴ U.S. Department of Homeland Security, *National Response Framework*, 2nd ed. (Washington, D.C.: May 2013). DHS published the first edition in 2008.

agencies that have significant authorities, roles, and resources; and multiple support agencies, that have specific capabilities or resources. In recognition of its disaster relief responsibilities, the Red Cross is identified as a primary agency—together with FEMA—for the mass care component of the “mass care, emergency assistance, temporary housing, and human services” function (ESF-6) under the NRF.²⁵ Red Cross is the only nongovernmental organization designated as a primary agency in the NRF. In addition to this role, Red Cross is designated as a support agency for the emergency assistance, temporary housing, and human services components of ESF-6 and, in that role, is to provide disaster preparedness, response, and recovery activities and services throughout the nation consistent with its federal charter. It is also designated as a support agency for five other ESFs under the NRF.

- National Disaster Recovery Framework (NDRF).²⁶ This document, released in 2011, provides a similar coordinating structure for post-disaster recovery efforts. Under the NDRF, recovery activities are categorized under six recovery support functions (RSF), each with a federal coordinating agency. The Red Cross is designated as a “supporting organization” for three RSFs under the NDRF. (See app. I for more information on the Red Cross’s roles under the NRF and NDRF.)

The response and recovery frameworks apply to incidents that range from those that can be managed at the local level to those requiring federal support or leadership. When a significant event occurs and state and local resources are overwhelmed, a heightened federal involvement is triggered. During such significant events, FEMA and other federal agencies provide coordination, technical assistance, and resource support to states at their request. FEMA and the Red Cross provide coordination for mass care activities.²⁷ In addition, certain federal assistance programs for individuals, businesses, and the public sector

²⁵ The NRF also designates FEMA as the coordinating agency for ESF-6, giving it authority to coordinate and direct the operations of other federal agencies during response.

²⁶ FEMA, *National Disaster Recovery Framework: Strengthening Disaster Recovery for the Nation* (Washington, D.C.: September 2011).

²⁷ The Red Cross is not solely involved in incidents that require a national response. It spends a significant portion of its resources responding to local incidents, such as single-family home fires.

may be activated. Non-federal support agencies are encouraged to coordinate their assistance through the federal disaster relief structure.

Key Factors That Drive Red Cross's Disaster Assistance Include Its Standard Set of Services and the Needs of Affected Communities

Domestic Disaster Response Services Are Largely Based on Standardized Procedures

The Red Cross's services in the immediate response to disasters are standardized with the goal of providing individuals with services on an equitable basis regardless of the type of disaster or location. One key Red Cross policy document in the area of disaster response is the All Hazards Plan (April 2012), which outlines its overall approach for providing disaster relief. For example, it lays out five actions that form the foundation of the organization's immediate response to emergencies: (1) sheltering, which includes physical and mental health services; (2) feeding; (3) assigning staff to local and state emergency operation centers; (4) reporting financial and other data related to the response; and (5) reaching out to the public and the media about the Red Cross's response activities. Red Cross officials told us that bulk distribution of relief items and family reunification are other key components of their disaster services. The All Hazards Plan also prescribes time frames for taking certain steps during response, such as providing staff to emergency operations centers within 12 hours. Beyond its general guidelines for all disasters, the Red Cross has separate documents with instructions for responding to certain types of events, such as hurricanes, transportation-related disasters, and pandemics. It also has procedure manuals with more detailed directions on implementing specific components of the response effort, such as the Sheltering Handbook and the Bulk Distribution Handbook. Red Cross officials who managed the response to the three disasters we studied all confirmed that they generally provide a similar set of services when responding to events, as outlined by the organization's national policies.

While the Red Cross has a standardized program for immediate response to disasters, officials told us there is some flexibility to adapt response activities to address the unique needs of affected communities or as a result of coordination with other service providers. For example, officials involved in the 2014 northern Florida floods told us they channeled considerable resources into distributing relief items—such as shovels for removing mud from flooded homes—because that was the community’s greatest need; but that their sheltering operation was fairly limited because many victims were able to move in with nearby relatives. With regard to coordination with other service providers, at the national level the Red Cross has formal agreements with many other nonprofit organizations about how they will work together in disasters and the specific services each organization will provide. For example, the Red Cross and the Southern Baptist Convention²⁸ have a statement of understanding specifying that the Southern Baptist Convention will prepare meals in mobile kitchens during joint disaster operations while Red Cross will provide logistical support and deliver meals.²⁹ As an example of coordination at the local level, Red Cross officials involved in Hurricane Sandy said they worked with local governments and other nonprofits in New Jersey to identify communities that needed food assistance from external groups such as Red Cross. Decisions about response services are not influenced by the amount of donations received for particular disasters, according to officials at Red Cross headquarters and those involved in the three disasters we studied. A senior headquarters official told us the organization tries to be as consistent as possible across disasters when providing services in the response phase, but there may be differences in services due to unique local circumstances or to avoid duplicating services provided by other groups. To fund its immediate response to all disasters—including large events as

²⁸ The Southern Baptist Convention is a religious organization whose mission includes helping churches provide relief to victims of disasters.

²⁹ As another example, the Red Cross has also entered into a memorandum of understanding with the National Center for Missing and Exploited Children, which operates the National Emergency Child Locator Center, established to facilitate the identification and reunification of children with their families after a disaster under the Post-Katrina Emergency Management Reform Act of 2006, Pub. L. No. 109-295, tit. VI, § 689b, 120 Stat. 1394, 1449, codified at 6 U.S.C. § 774. The law directed the Center to enter into cooperative agreements with a variety of entities, including the Red Cross. Under the memorandum of understanding, the Center and the Red Cross share information on children who are missing after a disaster with the goal of reunifying them with their families.

well as smaller ones that generate little media coverage or donations—the organization relies primarily on donations it received prior to the disaster that were not restricted to any particular disaster, but in some instances uses restricted funds as well.³⁰

Domestic Disaster Recovery and Preparedness Have Varied Based on Local Needs and Funding, and Red Cross is Implementing a More Standardized Approach

The Red Cross's disaster recovery and preparedness programs have historically been less standardized than its response program, with more variation across disasters and locations, according to Red Cross officials. In the area of recovery, officials told us that while the organization has been active in this area in the past, until recently there has been a lack of clarity about what services to provide; and that, in contrast to response, the nature and scale of services has been significantly influenced by the amount of donations received in connection with particular disasters.³¹ For example, Red Cross officials who managed the Hurricane Sandy recovery effort told us they lacked clear guidance from headquarters about what services they should provide at a minimum, and what services they could provide if funding permitted. They opted to use a portion of the large amount of donations directed to Sandy for the Move-In Assistance Program, which covered relocation expenses, furniture, mold removal, and other costs associated with securing permanent housing. They also awarded grants to other nonprofit organizations to provide services in fields where they had more expertise. Similarly, Red Cross officials involved in the 2013 Oklahoma tornadoes, which also generated a large amount of donations, said at the time there was some ambiguity in the organization's policies on what services to provide during recovery. They identified specific local needs and used their resources to address these needs, such as assisting schools with rebuilding and mental health counseling, and helping families cover the costs of repairing damaged vehicles.

Similar to the recovery area, while the Red Cross has been involved with preparedness in the past, these activities historically were not standardized across the nation. A senior official responsible for

³⁰ Donors have the option of restricting their contributions to the Red Cross for use in a particular disaster. However, Red Cross states on its website that it reserves the right to use these funds for other disasters if it receives more donations than it needs for the disaster designated by a donor.

³¹ Such donations could include those that are restricted to a particular disaster as well as—in some cases—non-restricted funds that are received following the event.

preparedness activities said these activities were historically led primarily by the individual regions and chapters, with little centralized direction or guidance. Also, similar to recovery, the scale of preparedness activities may be influenced by the level of donations received. After the 2013 Oklahoma tornadoes, for example, the Red Cross was able to use a portion of its donations to support the construction of safe rooms in homes throughout the affected region, to help families survive future tornadoes.

The Red Cross is implementing a more consistent, standardized approach to both recovery and preparedness. In terms of recovery, in 2014 it issued guidance to its staff on what services to provide and how to manage these services. This new guidance lays out minimum services that should be provided following all disasters, and additional services that may be provided if funding permits. It also requires that an Executive Director for Recovery Operations be assigned in a large disaster.³² Officials said this guidance partly came from lessons learned from the organization's experiences with recent large events, including Hurricane Sandy. In terms of preparedness, officials said headquarters develops nationwide preparedness initiatives that all regions are to implement, such as its recent effort to install more smoke alarms in private homes, and provides various preparedness tools for local staff to draw on.³³

Based on our interviews with Red Cross officials involved with recent recovery and preparedness efforts, it appears that the new policies are influencing procedures on the ground. For example, the 2014 Florida floods were one of the first disasters in which the Red Cross's recovery effort was guided by the policies set forth in the new guidance. Red Cross officials involved in this event told us that as a result of these new policies, they treated recovery as a distinct phase and assigned staff specifically to manage it, which they said contributed to a more focused, proactive approach. Also, Red Cross officials involved in events we studied told us they implement preparedness campaigns and initiatives generated by headquarters, with some adjustments made to address

³² American Red Cross, *Recovery Framework: Disaster Cycle Services Frameworks* (Washington, D.C.: January 2014) and *Concept of Operations: Disaster Cycle Services Program Essentials* (Washington, D.C.: October 2014).

³³ American Red Cross, *Disaster Cycle Services: Preparedness Companion to the Disaster Capacity and Readiness Framework* (January 2014).

local needs. For example, officials in the New York metropolitan area said they deliver training and outreach materials developed by headquarters but customize their efforts by targeting the most vulnerable communities and by providing messages in multiple languages.

International Disaster Assistance Is Driven by Factors Such as Other Nations' Needs and the American Red Cross's Specific Areas of Expertise

Some of the same factors that inform decisions about domestic disaster assistance—local needs, coordination with governments and other stakeholders, and amount of donations received—inform the American Red Cross's decisions about international disaster assistance. There are also key differences, according to senior American Red Cross officials. Unlike with domestic assistance, the American Red Cross does not automatically get involved with all major international disasters. Rather, it assesses each appeal for assistance that is issued by the International Federation of Red Cross and Red Crescent Societies (IFRC)—an international body representing national Red Cross and Red Crescent societies—based on a request from a nation's Red Cross or Red Crescent society. In deciding whether to respond to the appeal, American Red Cross managers consider several factors, including the scale of the humanitarian need, the capacity of the national Red Cross or Red Crescent society, and the American Red Cross's capacity to respond in terms of its expertise and resources.

The specific services or types of assistance the American Red Cross provides for each international disaster also depend on several factors, according to senior officials from the organization. One key factor is the American Red Cross's particular area of expertise. For example, the American Red Cross has expertise in bulk distribution of relief items, so when multiple nations' Red Cross or Red Crescent societies assist with an international disaster the American Red Cross typically takes the lead in this area, while other nations' societies take the lead in areas such as public health or logistics. Another factor is input from the Red Cross or Red Crescent society in the affected nation about what assistance is needed. For example, the society may tell the American Red Cross that it needs funds rather than technical assistance. A third key factor is the amount of donations received, as the organization's international assistance is primarily supported by funds that donors have indicated should be used only for a particular disaster. Finally, certain non-binding standards and guidelines regarding international disaster relief inform the American Red Cross's decisions about their services. One key set of standards is the Code of Conduct for the International Red Cross and Red Crescent Movement and Non-Governmental Organizations (NGOs) in Disaster Relief. This document lays out general principles for how to

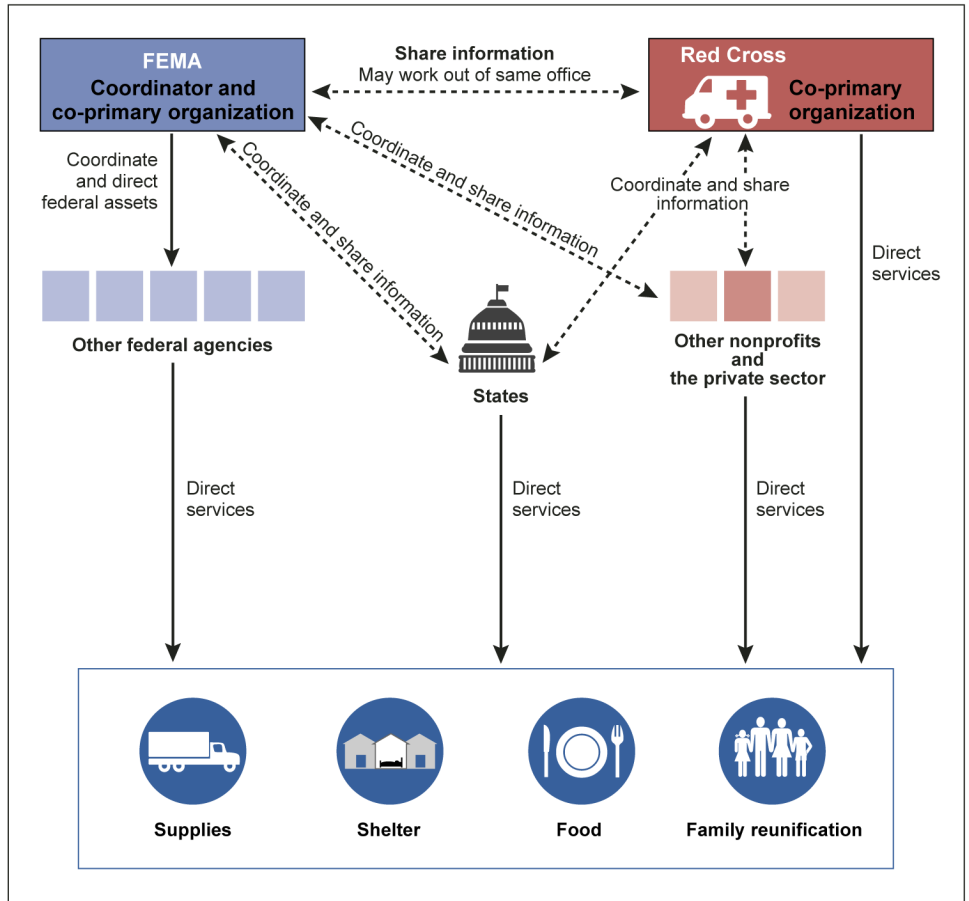
assist with disasters in other countries, including that assistance should be provided to all victims without regard to race, religion, or nationality, and that international organizations should try to build local capacity by employing local staff and purchasing local materials.

The Red Cross's Coordination with the Federal Government Focuses Primarily on Information Sharing

The Red Cross Coordinates with FEMA and Other Federal Agencies Primarily by Sharing Information on Services and Resources

Consistent with the structure established by the emergency support function that covers mass care (ESF-6), the Red Cross works closely with FEMA in leading the response to major events. According to officials from both FEMA and the Red Cross, this coordination often involves Red Cross sharing information with FEMA—for example, through conference calls or through liaisons assigned to FEMA offices—about victims' needs and the resources it and other nonprofit organizations can bring to the response effort. Officials told us this may help FEMA, as the coordinating agency for ESF-6, to identify gaps and direct federal resources more efficiently. During the response to Hurricane Sandy, for example, Red Cross shared data with FEMA on the number of shelters opened, the availability of relief supplies such as blankets, and the likely number of victims who would require help getting access to food. During the response to the 2013 Oklahoma tornadoes, Red Cross shared expertise with FEMA on sheltering, and FEMA officials said this helped them think through alternative approaches to meeting victims' needs. Conversely Red Cross officials said they may take information received from FEMA during a disaster response—such as a state's request for a particular type of assistance—into account when determining how to use their resources. Red Cross officials told us that in addition to sharing information, the Red Cross and FEMA also coordinate in other ways such as through exercises, planning, and education and training. (See fig. 2 for an outline of how the Red Cross and FEMA work together under ESF-6 to lead the provision of mass care services in major disasters.)

Figure 2: How the Red Cross and Federal Emergency Management Agency Work Together under Emergency Support Function-6 to Lead Mass Care Services in Major Disasters



Source: GAO analysis of FEMA and Red Cross documents. | GAO-15-565

Additionally, while officials from both organizations agreed that FEMA cannot direct the Red Cross to use its own resources in particular ways, FEMA may use federal funds to procure services from the Red Cross through an Interagency Agreement (IAA) originally signed in 2012. According to FEMA officials, this IAA enables FEMA to quickly procure Red Cross goods and services in cases in which this is more cost effective than doing so through another federal agency. FEMA officials said they can use this mechanism because the Red Cross is an instrumentality of the United States. The IAA has only been used a few

times, but the organizations renewed it in May 2015 and FEMA officials said it could be employed more often in the future.^{34,35}

Red Cross and FEMA officials also cited examples of coordination on disaster recovery and preparedness, and described how this coordination may influence their service delivery decisions. For example, following the 2014 floods in northern Florida, according to Red Cross officials, FEMA influenced their decisions about which communities to focus their recovery efforts on by providing information on areas that were not covered by other service providers. In addition, FEMA regional officials involved in the recovery effort following the 2013 Oklahoma tornadoes said Red Cross provided FEMA with its database of available housing in the area, which helped FEMA move victims out of shelters and into permanent housing. In terms of preparedness, Red Cross officials told us the organizations coordinate at the headquarters level to ensure consistency in the messages conveyed by their public outreach campaigns. Red Cross has FEMA experts review its preparedness materials, such as its mobile applications, to ensure they are scientifically accurate and consistent with materials developed by FEMA. At the local level, the two organizations have sometimes coordinated to promote and distribute each other's preparedness materials to the public. In addition,

³⁴ For example, FEMA paid the Red Cross about \$400,000 under the IAA to provide case management assistance to victims of a flood in Illinois, because the Red Cross already had case workers in the area, according to FEMA officials. In addition, between 2008 and 2012, before the IAA was developed, FEMA contracted with the Red Cross to obtain technical expertise on mass care (through 14 Red Cross staff assigned to FEMA offices). In fiscal year 2012, the Red Cross received \$1.2 million under this contract.

³⁵ Separate from the IAA, the federal government has also reimbursed the Red Cross for certain disaster assistance activities in previous years. In 2004 the Red Cross was authorized by law to receive up to \$70 million in federal funds to reimburse it for expenditures associated with Hurricanes Charley, Frances, Ivan, and Jeanne. Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005, Pub. L. No. 108-324, 118 Stat. 1220, 1251-1252. In May 2006, GAO reported that the Red Cross had requested reimbursement of \$28.1 million. GAO, *Disaster Relief: Reimbursement to American Red Cross for Hurricanes Charley, Frances, Ivan and Jeanne*, [GAO-06-518](#) (Washington, DC: May 30, 2006). Additionally, in 2008, the Red Cross was authorized by law to receive up to \$100 million in federal funds for reimbursement of expenditures associated with hurricanes, floods, and other natural disasters occurring that year for which the President declared a major disaster. Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009, Pub. L. No. 110-329, § 10502, 122 Stat. 3574, 3593. In September 2012, GAO reported that the Red Cross was reimbursed in the amount of \$78.1 million. GAO, *Disaster Relief: Reimbursements to the American Red Cross for Certain 2008 Disaster Assistance*, [GAO-12-877](#) (Washington, DC: Sep. 14, 2012).

Red Cross officials said the organization is part of the Emergency Support Function Leadership Group and the Recovery Support Function Leadership Group, both of which meet on a monthly basis to address critical areas of support and coordination.

In addition to coordinating with FEMA on mass care, the Red Cross also works to a lesser extent with some other federal agencies during disaster response. For example, in the area of public health, the Red Cross transmits data to the Centers for Disease Control and Prevention (CDC)—located within the Department of Health and Human Services (HHS), on health issues among disaster victims receiving its assistance.³⁶ CDC analyzes these data and submits reports back to the Red Cross. The Red Cross and CDC signed a memorandum of agreement in 2010 outlining their respective roles and responsibilities. In the area of logistics, Red Cross routinely works with GSA. GSA is the co-primary agency for the logistics emergency support function, along with FEMA.³⁷ GSA officials told us the Red Cross is an active participant in planning meetings, exercises, and trainings related to this emergency support function. During disasters, according to officials from both organizations, the Red Cross shares information with GSA on its efforts to assist victims and available resources. It may also indirectly obtain relief supplies from GSA, when a state government formally requests assistance from FEMA. In such cases, FEMA tasks GSA to provide commodity or services support to the state, which then turns this support over to the Red Cross, according to GSA officials.

Finally, the American Red Cross and the federal government coordinate on international disaster assistance in several ways, including the use of

³⁶ We have previously reported that the federal coordinating agencies for the emergency support functions are inconsistently carrying out their emergency preparedness activities. For example, FEMA, in its role as coordinating agency for mass care, had coordinated with the mass care support agencies through a variety of mechanisms, produced a planning document, and completed a capability assessment. In contrast, HHS, in its role as coordinating agency for the public health and medical services emergency support function, had conducted no preparedness coordination specific to this emergency support function, and had not completed its planning document. See GAO, *Emergency Preparedness: Opportunities Exist to Strengthen Interagency Assessments and Accountability for Closing Capability Gaps*, [GAO-15-20](#) (Washington, D.C.: Dec. 4, 2014).

³⁷ The logistics emergency support function covers, among other things, acquisition of resources; delivery of supplies, equipment, and services; and coordination of transportation.

federal grants to support American Red Cross relief efforts. Officials from the Office of U.S. Foreign Disaster Assistance (OFDA) within USAID told us they maintain contact with major international disaster assistance organizations, including the American Red Cross, to identify the disaster response capabilities they possess that could be drawn upon in the event of an international disaster. This coordination enables OFDA to quickly identify potential service providers when a need arises in particular geographical areas. For example, OFDA has frequently interacted with the American Red Cross on disaster assistance in Indonesia, because the American Red Cross was actively involved in providing relief there. In some cases, the federal government may provide federal funds to the American Red Cross to support specific international assistance projects. The American Red Cross told us it used about \$3.5 million in grants from USAID during fiscal years 2012 and 2013 for assistance projects in Indonesia and other countries. OFDA officials said they typically provide grants to the American Red Cross for disaster risk reduction and preparedness programs, such as hazard mapping and working with communities to establish evacuation routes. During this same time period, the American Red Cross said it used about \$1.6 million in grants from the Bureau of Population, Refugees, and Migration within the State Department.³⁸ These grants supported emergency services to refugees in Tanzania and Panama, such as providing safe drinking water and mosquito nets.

Coordination with FEMA Is Consistent with Several Best Practices

The coordination between the Red Cross and FEMA during disaster response exhibits a number of features that GAO has previously identified as benefiting coordination efforts:³⁹

- Written guidance and agreements. Besides the IAA, Red Cross and FEMA have developed several other documents that determine how they work together on disaster response. For example, they signed a memorandum of agreement in 2010 to outline how they should cooperate and mutually support each other when conducting mass care activities. Also, the two organizations played lead roles in

³⁸ Technically, the State Department uses the term cooperative agreement to describe the mechanism by which it awards funds to the American Red Cross.

³⁹ See [GAO-12-1022](#) for a complete list and explanation of these features. This report is part of a body of GAO work related to collaboration across government agencies, nonprofits, and the private sector.

developing a National Mass Care Strategy document in 2012. This document integrates the perspectives of FEMA, the Red Cross, and a number of other groups involved in disaster response, and recommends general best practices for mass care service delivery.

- Common outcomes and goals. The National Mass Care Strategy lays out strategic goals and sub-goals for disaster response that are shared by FEMA and the Red Cross, as well as other disaster response organizations. These shared goals include making sure that service delivery is flexible and scalable to meet requirements and creating the opportunity for improved whole community coordination and participation. Examples of more detailed sub-goals include removing barriers to volunteer, faith-based, community-based, and private sector involvement in disaster response and implementing a standardized mass care incident management training program. Red Cross officials told us they particularly share common goals with FEMA in the area of mass care.
- Clearly defined roles and responsibilities. FEMA and Red Cross have defined their roles and responsibilities during disaster response, especially through the memorandum of agreement. The 2010 agreement laid out a number of specific responsibilities for each organization, including 11 that are specific to FEMA (e.g., directing and coordinating federal assets during response operations); 18 that are specific to Red Cross (e.g., fostering joint training, terminology, standards, and strategies for mass care among states and other nonprofits); and 10 that are shared by both organizations (e.g., assisting states with planning and executing mass care services).
- Representatives with the ability to commit agency resources. In the three disasters we studied, FEMA regional officials said they interacted with Red Cross staff who had the appropriate level of decision-making authority. For example, the Red Cross assigned a higher-level manager to work directly with FEMA following Hurricane Sandy, when more complex decisions had to be made. Similarly, Red Cross officials told us they have consistent access to FEMA program staff and senior leaders, both at headquarters and regional levels.
- Compatible technological systems. Through its National Shelter System, the Red Cross transmits data to FEMA's shelter database on the shelters it operates, such as their location and capacity. FEMA regional officials we interviewed said this technology provides FEMA with valuable data.

The organizations' roles and responsibilities in the area of recovery were not clearly defined in the 2010 memorandum of agreement which laid out how the Red Cross and FEMA work together during major disasters. Of the 18 responsibilities assigned specifically to the Red Cross in its

memorandum of agreement with FEMA, nine related to the area of mass care and disaster response, while only three touched on disaster recovery.⁴⁰ These included helping to create community-wide recovery strategies and encouraging other partners to share information on their recovery activities with FEMA. Both FEMA and Red Cross headquarters officials recognized the agreement is primarily focused on response and provides few details on recovery. Furthermore, several FEMA regional staff told us the agreement was not sufficiently clear in the area of recovery. FEMA staff involved with Hurricane Sandy said the Red Cross played a more significant and proactive role in the recovery phase of that disaster than it has in the past. They told us that while their well-established personal relationships with Red Cross staff enabled them to keep abreast of and understand the organization's evolving role, additional clarity in formal documents about Red Cross's role in recovery would be helpful. Similarly, a FEMA official involved in the 2014 Florida floods said that adding details about the Red Cross's role in recovery to the memorandum of agreement would help FEMA and Red Cross staff work together more effectively. The official said the document should describe other potential Red Cross roles beyond organizing community recovery efforts, such as providing financial assistance or case management services to disaster victims.⁴¹

In prior work we have emphasized that written agreements are most effective when they are regularly updated and monitored.⁴² Red Cross and FEMA signed a revised memorandum of agreement that was executed on July 28, 2015 that includes additional details about how the organizations will work together in recovery. For example, Red Cross (along with FEMA) is now tasked with supporting Long-Term Recovery Groups that will address unmet needs of people affected by disasters. The new agreement will remain in effect until 2020.

⁴⁰ The remaining responsibilities cover preparedness activities, among other things.

⁴¹ Establishing clear guidelines and effectively coordinating with key partners in long-term recovery have been challenges for FEMA over the years. We reported previously that, prior to the development of the NDRF, FEMA faced challenges in coordinating with state and local governments on recovery. For example, the criteria for activating ESF-14—which supported long-term recovery—for specific disasters were vague, resulting in uncertainty among states and other federal agencies. Also, FEMA in some cases did not coordinate well with state and local governments on the timing of recovery efforts, getting involved before states and locals were ready for assistance. See [GAO-10-404](#).

⁴² [GAO-12-1022](#).

Federal, State, and Nonprofit Oversight of the Red Cross Focuses on Governance and Financial Practices Rather Than Disaster Performance

Federal Agencies Have Oversight Responsibilities Related Primarily to Red Cross's Financial Practices and Use of Federal Funds

Although the Red Cross plays a significant role in domestic disaster relief, the federal government does not conduct regular ongoing evaluation of its disaster-related services. The activities of several federal agencies are targeted to specific aspects of the Red Cross's governance and financial practices. Specifically, those agencies are the IRS, which enforces tax exemption requirements; DOD, which reviews Red Cross's financial statement; and FEMA, the State Department, and USAID, which monitor the Red Cross's use of funds provided under grants and an interagency agreement.

IRS

The Red Cross, as an Internal Revenue Code section 501(c)(3) tax exempt charitable organization, is required to annually file with the IRS a Form 990⁴³ containing data on revenues, expenditures, and governance. A key result of IRS oversight of the Red Cross is that the agency makes these forms available to the public. The most recent Red Cross Form 990 has information on the broad range of Red Cross programs and services. Specific information for domestic disaster services includes the total amount spent and the types and number of disasters to which the organization responded during the past year. The form does not call for the specific amount of gifts, grants, and contributions received for disaster services to be reported. The information that the Red Cross supplies about its governance includes the names of board members and officers, the officers' compensation, and how they have certified their compliance

⁴³ Return of Organization Exempt from Income Tax.

with the organization's code of business ethics and conduct. Based on its review of a nonprofit's 990 submission, IRS may conduct a more in-depth examination to determine if that nonprofit is in compliance with requirements related to its tax-exempt status.⁴⁴ IRS investigates a small fraction of charities each year.⁴⁵ For example, IRS might conduct a more in-depth examination if a Form 990 indicated a significant diversion of resources to an official, such as an unreasonable amount of compensation, or loans to officers at below-market interest rates. If IRS determines that an entity operated in a manner that is materially different from its stated exempt purpose or engaged in a prohibited transaction, it could impose certain sanctions, including revoking the entity's tax exemption.⁴⁶ As we have reported previously, in fiscal year 2013, IRS examined 5,426 Form 990 returns filed during fiscal year 2012, meaning it examined 0.71 percent of the approximately 763,000 tax-exempt charities that filed.⁴⁷

DOD

DOD's Army Audit Agency conducts a high-level annual review of the Red Cross's consolidated financial statements and submits a report of its review to Congress.⁴⁸ Specifically, the agency reviews the results of an

⁴⁴ The Internal Revenue Code requires that an organization adhere to certain accepted charitable, religious, educational, scientific, or literary purposes to qualify for 501(c)(3) tax-exempt status. The Code also prohibits charitable organizations from undertaking certain activities—no earnings of the organization may benefit individual or private shareholders, no substantial attempt may be made to spread propaganda or influence legislation, and no effort may be made to campaign for or against a candidate for public office. 26 U.S.C. § 501(c)(3) and 26 C.F.R. § 1.501(c)(3).

⁴⁵ IRS conducts (1) compliance checks, in which it asks an organization to explain something on the Form 990 that appears potentially questionable, and (2) examinations, in which organizations are required to provide their records to IRS, which in turn attempts to verify the supporting documentation behind the Form 990 entries.

⁴⁶ IRS officials told us that revocation of tax-exempt status is a last resort. Rather, IRS tries to work with organizations that have compliance problems to resolve them before starting a revocation action. For example, IRS can issue a corrective letter to an organization listing corrections needed to comply with tax law. If the organization complies, no further enforcement action is taken.

⁴⁷ GAO, *Tax Exempt Organizations: Better Compliance Indicators and Data, and More Collaboration with State Regulators, Would Strengthen Oversight of Charitable Organizations*, [GAO-15-164](#) (Washington, D.C.: Dec. 17, 2014).

⁴⁸ The charter requires the Red Cross to submit an annual report to the Secretary of Defense on its activities during the previous fiscal year, including a complete itemized report of all receipts and expenditures. The Secretary is required to audit that report and submit a copy to Congress. 36 U.S.C. §§ 300110.

independent audit of the Red Cross's financial statements conducted by a certified public accounting firm engaged by the Red Cross, and issues a letter presenting the results of its review. The letter notes that the Army Audit Agency takes this approach in order to avoid duplication and unnecessary expense. The agency most recently reviewed KPMG LLP's audit of the Red Cross's consolidated financial statements for the fiscal year ended June 30, 2014. To determine the reliability of KPMG's work, the agency reviewed, among other things, KPMG's audit approach, the qualifications and independence of the audit staff, selected audit plans, Red Cross's consolidated financial statements, and KPMG's report evaluating Red Cross's conformance with U.S. generally accepted accounting principles. The agency stated it found nothing inappropriate or unreliable in KPMG's opinion that Red Cross's fiscal year 2014 financial statements were fairly presented.⁴⁹ We also reviewed the agency's letters describing the results of its work on the fiscal year 2012 and 2013 financial statements, which reached similar conclusions, e.g., that there were no issues with KPMG's opinion that Red Cross's financial statements were fairly presented for those years.⁵⁰ Red Cross officials indicated that when performing the annual financial statement audit, KPMG tests a wide array of systems and procedures across the organization's various lines of service. Specifically for disaster-related work, KPMG conducts testing to ensure that eligibility criteria for disaster-related financial assistance are applied correctly and that systems used to process and record disaster revenues and expenses are reliable, among other things.

FEMA, USAID, and State Department

When the Red Cross receives funds from FEMA through the IAA, or from USAID or the State Department through grants, officials of these entities told us they oversee Red Cross's use of these funds by monitoring its compliance with the terms of the IAA or the grant. For example, FEMA oversees its IAA with Red Cross through its procurement office, which monitors invoices submitted by the Red Cross and ensures that it delivered the services and goods required under the IAA. USAID officials told us they review quarterly reports submitted by the Red Cross for

⁴⁹ Department of the Army, *U.S. Army Audit Agency Review of the Independent Auditor's Report*, A-2015-0010-FMF, (Nov. 21, 2014).

⁵⁰ DOD and Red Cross officials told us that in addition to reviewing KPMG's financial audit, Army Audit Agency staff attend every meeting of the Red Cross Board of Governors' audit committee. DOD officials said Army Audit Agency staff attend these meetings primarily as observers.

financial and programmatic monitoring purposes, with the latter focusing on reporting against required indicators and outputs. USAID officials explained that specific monitoring requirements are included in the proposal agreement associated with each grant the agency awards for international disaster assistance. Similarly, the State Department's Bureau of Population, Refugees, and Migration monitors the small number of grants it awards the Red Cross for international disaster assistance. Bureau officials said its overseas representatives monitor and evaluate the general performance of operations under any awarded agreement to ensure that the established objectives are being successfully met, and provide the Bureau reports on whether the performance is in compliance with the terms of this agreement. Additionally, they said the Bureau's monitoring report includes an on-site assessment of activities and written evaluation, and provides a record and assessment of performance, coordination, financial or management issues.

States' Oversight Focuses on Preventing Fraud and Mismanagement, but Some States See Their Authority as Limited by Red Cross's Status as a U.S. Instrumentality

State attorneys general have the authority to investigate and take action on any allegations about nonprofits, such as fraud or misuse of donated funds. According to officials in several states and an expert we interviewed, state attorneys general typically investigate nonprofits when they receive some indication of potential mismanagement of charitable assets or fraud in soliciting or using funds, such as when they receive a complaint about a nonprofit from a donor or a whistleblower. We were unable to identify the total number of state attorney general investigations of Red Cross nationally in recent years. According to state attorneys general officials, investigations are typically made public only when they take formal, legal action against a nonprofit. Furthermore, information that is publicly available from all 50 states is not centrally located. According to an expert in the field, state attorneys general are unlikely to investigate the Red Cross because, with limited resources, these offices prioritize investigations of newer, less established organizations. Officials at two of the three state attorney general offices we interviewed in depth said Red Cross had not been a focus of investigations within their states. An official of one of the states told us that with limited resources, the state focuses on the most egregious offenders, such as scammers who raise money after disasters for non-charitable, illegitimate purposes.

In one of the three states, New York, the Charities Bureau of the Office of the Attorney General has full time staff dedicated to oversight. In 2014, it produced a report examining the Red Cross's use of funds donated for Hurricane Sandy recovery, as part of a Charities Bureau project that

asked about 90 nonprofits that received donations to disclose information on the amounts received and how they were being spent. The Red Cross received the largest amount of donations. Part of the purpose of this effort was to ensure that funds raised in the name of Hurricane Sandy relief were used for that purpose. The Charities Bureau reached an agreement with Red Cross intended to provide additional relief for Sandy victims and further promote transparency for donors. The Red Cross agreed to allocate an additional \$6 million for Sandy relief efforts. It also agreed to make several changes to its processes for online solicitation, such as omitting any reference to a specific disaster on the online donation page and informing potential online donors that they may restrict their donations to a specific disaster by completing a form and mailing a check.

Although states may investigate the Red Cross when potential issues arise, officials in several of the states we contacted said their oversight is limited to some degree because of Red Cross's close connections to the federal government. Many states require certain nonprofits to register with their attorney general's office. In the six states we contacted, we were told that registered nonprofits must submit information such as annual financial statements, data on how professional fundraisers are used, and compensation amounts. However, all six states exempt Red Cross from these requirements, and officials from several of those states and an expert on state oversight of nonprofits told us this is generally the case.⁵¹ Officials in five of the six states we contacted told us the Red Cross is exempted because of its status as a federal instrumentality or because it is already subject to oversight by the federal government, such as the requirement that it submit financial records to DOD.⁵²

State officials expressed mixed opinions about the consequences of Red Cross's exemption for their ability to monitor the organization. Some said they now have access through the Internet to most of the information Red Cross would submit if it were subject to registration requirements; one said his state primarily relies on complaints or media attention to identify issues for investigation, rather than information that registered charities are required to submit. But some officials said the exemption impedes

⁵¹ A Red Cross official told us Red Cross's long-standing position is that it is exempt from state charity registration requirements.

⁵² An official in the sixth state we contacted told us his state exempts all nonprofits that are classified as tax-exempt by the IRS, which includes the Red Cross.

their ability to identify issues at the Red Cross. For example, a Colorado official said that as a result of the exemption, there is no opportunity for the state to request and review clarification of any information in the light of whistleblower allegations or stories by investigative journalists, nor to compare data submitted in the Form 990 to data submitted directly to the state, as it is with other nonprofits. Similarly, a Michigan official told us that reviews of documents submitted by registered nonprofits may identify potentially false statements, and this can lead to withholding of registration or more aggressive enforcement actions; but such reviews are not conducted for nonprofits that are exempt from registration requirements, such as the Red Cross.

Nonprofit Watchdogs Monitor Red Cross's Governance and Finances as Guides for Donors

A number of nonprofit watchdogs monitor charitable organizations generally, including disaster relief organizations such as Red Cross, and focus on governance, transparency, and financial practices. For example, two prominent watchdogs in this category—Charity Navigator and the BBB Wise Giving Alliance—have recently given the Red Cross strong ratings in these areas. In its rating for the fiscal year ending June 2014, Charity Navigator gave the Red Cross three stars out of a maximum of four, indicating it “exceeds or meets industry standards and performs as well as or better than most charities in its Cause.”⁵³ The Red Cross met all but one of Charity Navigator’s accountability and transparency requirements, but its scores in both Financial Performance and Accountability and Transparency declined slightly from the prior year. In addition, in November 2014 Charity Navigator put the Red Cross on its watchlist due to concerns expressed by two members of Congress and

⁵³ Charity Navigator rates nonprofits on financial performance (e.g., the proportion of spending for program services, administration, and fund-raising) and accountability and transparency (e.g., whether the organization has independent voting board members, and whether certain governance and financial information is available on the organization’s website).

recent media reports about the Red Cross.⁵⁴ Further, despite its overall strong rating for the Red Cross in the area of transparency, in November 2013, after Typhoon Haiyan struck the Philippines, Charity Navigator issued an advisory noting that some nonprofits—including Red Cross—had not clearly communicated on their websites whether funds donors intended for Haiyan relief would, in fact, be used exclusively for that disaster. In the BBB Wise Giving Alliance’s January 2015 rating, the Red Cross met all 20 standards the group uses to assess nonprofits; these cover areas including governance, effectiveness, and finances.⁵⁵ Both groups said in making their assessments, they rely on charities’ annual Form 990 submissions as well as other information they collect from charities. Charity Navigator officials said because of uncertainty regarding the accuracy of nonprofits’ self-reported responses to questions on the Form 990 it has started to request additional documents from nonprofits as corroboration.

The Center for Disaster Philanthropy and the Disaster Accountability Project are organizations that provide information to donors and the public about disaster assistance. The Center for Disaster Philanthropy works with individual donors, foundations, and corporations to inform their decisions about supporting disaster relief organizations, with a particular focus on promoting support for longer-term recovery efforts. It works with clients to help them understand the specific needs associated with different disasters and inform their decisions about charitable donations. Another group, the Disaster Accountability Project, shares information with the public on disaster relief services and promotes greater

⁵⁴ Charity Navigator’s website says that it puts organizations on its watchlist when it “become[s] aware of conduct that may affect a donor’s decision to support that charity.” Charity Navigator takes no position on allegations or issues raised by third parties, and does not confirm or verify allegations raised by third parties, but it has determined that the nature of these issues warrants highlighting the information for donors. The Red Cross has responded to some of the media reports cited by Charity Navigator, for example in press releases dated October 28, 2014 (*American Red Cross Comments on ProPublica Report*) and December 11, 2014 (*American Red Cross Response to Latest ProPublica Allegations*). In addition, an organization called Charity Defense Council responded to certain press reports on August 6, 2015 (*Media Malpractice—How the Press Has Tried to Kill the Red Cross’ Haitian Relief Effort*).

⁵⁵ The BBB Wise Giving Alliance assesses whether nonprofits meet 20 standards in the areas of governance (e.g., board meets at least three times per year), effectiveness (e.g., organization has a policy to measure its effectiveness), finances (e.g., proportion of spending on program services), and fundraising and other information (e.g., fundraising appeals are truthful and not misleading).

transparency by relief organizations. For example, it coordinates a hotline for members of the public to report gaps in services after a disaster, operates an online forum for sharing disaster policy recommendations, and issued a report evaluating the transparency of information that Red Cross and other organizations provided about their response to the 2010 earthquake in Haiti. This report concluded that almost all of the 195 organizations examined (including the Red Cross) did not provide an acceptable level of transparency on their websites.⁵⁶

No Regular External Evaluations are Conducted of the Red Cross's Performance in Disasters, although Metrics Exist for Doing So

Despite the Red Cross's significant role in responding to the nation's disasters, none of the government or nonprofit organizations we identified as having a role in overseeing the Red Cross conducts regular, ongoing evaluations of its performance providing disaster services.⁵⁷ Among federal agencies, IRS and DOD do not focus on delivery of disaster services. While FEMA is directly involved with disaster services, FEMA and Red Cross officials told us that FEMA generally has no formal role in overseeing or evaluating the Red Cross's—or any other nonprofit's—performance in disasters. FEMA develops after-action reports following major disasters, but these are assessments of FEMA and the disaster response system overall. For example, in its after-action report on the response to Hurricane Sandy, FEMA assessed the strengths of the response FEMA coordinated across all organizations involved, as well as the difficulties, and suggested improvements for future events.⁵⁸ The report did not evaluate the performance of any one particular organization; rather, it described participating organizations' contributions, including those of Red Cross. While FEMA does monitor the Red Cross's use of federal funds that it provides the organization through their IAA, FEMA funds represent a very small fraction of the Red Cross's overall spending on disaster assistance.

⁵⁶ Disaster Accountability Project, *One Year Follow Up Report on the Transparency of Relief Organizations Responding to the 2010 Haiti Earthquake* (Dec. 2010/Jan. 2011).

⁵⁷ Red Cross officials told us the organization has a number of activities in place to evaluate its performance in disasters and make improvements, such as after action reviews and surveys of staff, clients, local and state emergency managers, and other stakeholders. They also said the results of internal evaluations such as after action reviews are typically not made available to the general public.

⁵⁸ FEMA, *Hurricane Sandy FEMA After-Action Report* (Washington, D.C., July 1, 2013).

Meanwhile, oversight conducted by state governments is generally focused on issues such as possible fraud or failure to act in accordance with donor intent, rather than the effectiveness of services provided. Evidence suggests there is no routine or regular state government oversight of the Red Cross. Furthermore, even if states did not exempt the Red Cross from registration requirements, they would not necessarily be better positioned to evaluate the organization's delivery of disaster assistance. Similarly, nonprofit watchdog groups are also generally focused on issues other than the impact or effectiveness of charitable services. For example, an official from the BBB Wise Giving Alliance said his organization lacks expertise to evaluate a nonprofit's performance in a disaster and does not see this as its role.⁵⁹ The Disaster Accountability Project has raised issues with the Red Cross's performance in disaster response, but its primary activities are to compile complaints about service gaps and maintain a website that lists policy recommendations related to disaster response—not to conduct formal studies of effectiveness or efficiency.

Officials from several organizations told us it can be challenging to assess the effectiveness or impact of disaster assistance. For example, Urban Institute officials cautioned that it is difficult to develop a single set of performance measures for all disasters because disasters and expected outcomes for victims vary widely. An official from the Center for Disaster Philanthropy told us there is a lack of clarity on what exactly should be measured, with possible metrics including how quickly services were delivered, how efficiently services were delivered, and how quickly communities recovered after a disaster. USAID officials told us that evaluating how well organizations perform during international disasters can be challenging, as it is sometimes difficult for USAID staff to physically access the projects to monitor or evaluate them. Furthermore, due to the unpredictability of disasters, these officials told us it is difficult to collect baseline data before a disaster strikes.

Even in light of the challenges, there are benefits to evaluating disaster assistance, including to (1) help relief organizations identify needed improvements, and (2) promote transparency for the donating public. First, the Urban Institute has noted that the benefits of evaluating disaster

⁵⁹ The BBB Wise Giving Alliance has standards related to effectiveness of charitable activities, which require nonprofits to have a policy in place for assessing their own effectiveness.

response activities include helping service providers and government agencies identify improvements needed in the provision of services, and identifying the types of services most likely to be helpful to particular demographic subgroups. Second, GAO and others have also emphasized the importance of transparency and making information available to the donating public about nonprofits' activities and performance. For example, GAO has noted in prior work that such information can enhance incentives for ethical and effective operations.⁶⁰ In addition, a panel of experts and representatives of the nonprofit sector examined, at the encouragement of the Senate Finance Committee, various practices in that sector and noted that the public must have accurate, clear, timely and adequate information about the programs, activities, and finances of charitable organizations, in order to encourage participation and confidence in that sector. Information on an organization's results and how they are measured could be an especially valuable way to explain to donors and the general public the organization's work and how it evaluates the results of its work.⁶¹

With respect to performance evaluation specifically, evaluators who are external to and independent from the organizations they examine can play an important role. For example, the IFRC's evaluation standards for its members—including the American Red Cross—emphasize the importance of disaster relief organizations having external evaluations and disseminating the results publicly. Such evaluations ensure that stakeholders, including funding agencies and private donors, have access to independent information on projects' effectiveness and efficiency.⁶² Similarly, GAO's standards for auditing the performance of federal agencies require auditors to be independent, defined as being free of influences that compromise professional judgment and able to exercise objectivity and professional skepticism.⁶³ In addition, external evaluation

⁶⁰ [GAO-05-561T](#).

⁶¹ Independent Sector, Panel on the Nonprofit Sector, *Strengthening Transparency, Governance, and Accountability of Charitable Organizations* (Washington, D.C.: June 2005), and *Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations* (Washington, D.C.: Oct. 2007).

⁶² International Federation of Red Cross and Red Crescent Societies, *IFRC Framework for Evaluation* (Geneva, Switzerland: Feb. 2011).

⁶³ GAO, *Government Auditing Standards*, GAO-12-331G (Washington, D.C.: December 2011).

of the Red Cross's performance in disasters may be especially important given its critical role in the nation's disaster response system. Federal internal control standards state that federal agencies should identify and analyze the relevant risks associated with achieving their objectives and form a basis for determining how risks should be managed.⁶⁴ Federal agencies, in particular FEMA, are responsible for coordinating and supporting the response to major disasters and rely significantly on the Red Cross to ensure the well-being of citizens.

The public's and the federal government's need for independent evaluation of the Red Cross's performance in providing disaster assistance takes on added significance given previous questions raised by members of Congress, GAO, and others about the organization's ability to respond effectively to large disasters. Following Hurricane Katrina and Hurricane Rita in 2005 along the Gulf Coast, a congressional investigation and several GAO reports identified a range of issues with Red Cross's response to the disaster.⁶⁵ One concern was that the Red Cross was not prepared to meet the disasters' unprecedented sheltering needs, in part because some areas—particularly rural areas—lacked local chapters or the Red Cross was not offering services in those areas. Furthermore, the Red Cross was criticized for having weak relationships with faith-based and other community groups that stepped in during the hurricanes to help disaster victims, and there were concerns that the Red Cross's assistance was late in arriving for certain subpopulations, such as people with disabilities. Additionally, disaster relief personnel from other countries who worked in the affected areas during the early weeks of the Katrina response said many Red Cross volunteers were given relief duties for which they were not trained or certified.⁶⁶ More recently, after Hurricane Sandy struck a number of states on the east coast in 2012,

⁶⁴ AIMD-00-21.3.1.

⁶⁵ GAO, *Catastrophic Disasters: Enhanced Leadership, Capabilities, and Accountability Controls Will Improve the Effectiveness of the Nation's Preparedness, Response, and Recovery System*, [GAO-06-618](#) (Washington, D.C.: Sept. 6, 2006); [GAO-06-712](#); [GAO-08-369](#); [GAO-08-823](#); and *Emergency Management: Actions to Implement Select Provisions of the Post-Katrina Emergency Management Reform Act*, [GAO-09-433T](#) (Washington, D.C.: Mar. 17, 2009). United States Senate Committee on Homeland Security and Governmental Affairs, *Hurricane Katrina: A Nation Still Unprepared* (Washington, D.C.: 2006).

⁶⁶ M. Goodhand, "Mission Report, Hurricane Katrina, 2005," British Red Cross (Sept. 14, 2005) and Thomas Riess, "Mission Report Montgomery + Mobile Alabama – Hurricane Katrina," International Committee of the Red Cross (Sept. 28, 2005).

media reports raised concerns about the efficiency of the Red Cross's response.⁶⁷

Metrics exist for assessing disaster assistance performance. For example, the Urban Institute has a set of potential indicators that service providers and researchers can use when evaluating disaster response activities.⁶⁸ These include indicators of the outcomes for disaster victims, such as the percentage experiencing a shortage of medicine, and indicators of the quality of services, such as the amount of time elapsed until a service is provided. In addition, the Sphere Project, an initiative of humanitarian nongovernmental organizations and the International Red Cross and Red Crescent Movement, has developed a set of detailed standards for the provision of disaster assistance.⁶⁹ These cover, for example, the minimum amount of water that populations should be provided daily and the maximum distance from food supplies. They are designed to assist nonprofits in planning, implementing, monitoring, and evaluating their disaster response services. Finally, the IFRC's evaluation guide for evaluating humanitarian assistance includes measures such as effectiveness, defined as the extent to which the project met its objectives in areas such as timeliness of service delivery and coordination with other agencies and groups; efficiency, defined as the cost effectiveness of service delivery; and impact, defined as the longer-term positive and negative changes resulting from the project.

The Inspector General at the Department of Homeland Security (DHS) has conducted performance audits of FEMA's response to specific

⁶⁷ David Halbfinger, "Anger Grows at Response by Red Cross," *The New York Times*, Nov. 2, 2012. David Caruso and Jennifer Peltz, "Red Cross: Over \$100 million in Sandy Aid Still Unspent," Associated Press, appearing in the *Christian Science Monitor*, May 28, 2013. Justin Elliott, Jesse Eisinger, and Laura Sullivan, *The Red Cross' Secret Disaster*, ProPublica and National Public Radio, Oct. 29, 2014, and *The Red Cross CEO Has Been Serially Misleading About Where Donors' Dollars Are Going*, ProPublica and National Public Radio, Dec. 4, 2014. The Red Cross has responded to ProPublica's reports, for example in press releases dated October 28, 2014 (*American Red Cross Comments on ProPublica Report*) and December 11, 2014 (*American Red Cross Response to Latest ProPublica Allegations*).

⁶⁸ H. Hatry, M. Abravanel, and S. Rossman, *What Happens to Victims? A Research Guide for Disaster Response Studies*. Urban Institute (Washington, D.C.: Mar. 2006).

⁶⁹ The Sphere Project, *Humanitarian Charter and Minimum Standards in Humanitarian Response* (Rugby, U.K.: 2011). The Movement includes both the IFRC and the International Committee of the Red Cross.

disasters, providing concrete examples of how disaster assistance can be evaluated.⁷⁰ Several audits conducted in recent years have assessed the effectiveness, efficiency, or appropriateness of FEMA's response efforts, and in at least one case their impact on disaster victims. The audits have relied on methods such as interviews with FEMA and local officials and observations of FEMA activities or the affected areas. For example, the IG issued an audit of FEMA's response to Hurricane Sandy in New York that found, among other things, that the agency effectively prepared for the storm by proactively deploying staff to regional operation centers, and effectively met victims' housing needs in an area with scarce traditional shelters through alternative options.⁷¹ In an audit of FEMA's response to floods in Galena, Alaska, the IG found that the agency's decision to construct permanent housing for victims was appropriate given the circumstances, but that FEMA delayed providing other types of assistance which had an adverse effect on victims in the remote areas affected by the disaster.⁷² The DHS IG's mission is limited to auditing and investigating DHS's programs and operations, and generally does not include auditing the Red Cross's performance in disasters. However, GAO has noted in prior work that while significant federal programs and agencies should be subject to oversight by their own independent IG offices, it may be appropriate and cost effective for smaller agencies to obtain oversight from another agency's IG when the missions of the two

⁷⁰ IGs have investigative and audit authority and can recommend policies to promote economy, efficiency, and effectiveness, and to prevent and detect fraud and abuse. GAO, *Inspectors General: Reporting on Independence, Effectiveness, and Expertise*, [GAO-11-770](#) (Washington, D.C.: Sept. 21, 2011).

⁷¹ Department of Homeland Security Office of Inspector General, *FEMA's Initial Response in New York to Hurricane Sandy*, OIG-13-124 (Washington, D.C.: Sept. 26, 2013).

⁷² Department of Homeland Security Office of Inspector General, *FEMA's Response to the Disaster in Galena, Alaska*, OIG-14-106-D (Washington, D.C.: June 17, 2014).

agencies are similar.⁷³ Furthermore, certain organizations that rely on a mix of federal and private funding sources are subject to IG oversight.⁷⁴

Conclusions

The nation's disaster response system relies to a significant extent on the nonprofit sector, which harnesses the public's generosity to provide funding for disaster response and recovery efforts. This approach can support the nation's efforts to assist disaster victims, but it also has limited accountability for disaster assistance. The Red Cross, the organization most responsible for providing shelter and other mass care services to disaster victims, exemplifies this tension. It has been designated by law as an instrumentality of the United States and has a critical, formalized role in coordinating and providing disaster response services across the nation. At the same time it remains a nonprofit organization that generally makes its own decisions about what services to provide. This reliance on an independent organization can be effective if government and the donating public have confidence that Red Cross is providing the services that are most needed in an effective and efficient manner. Further, in disasters in which the federal government is involved, the extent and effectiveness of the Red Cross's activities could have a direct impact on the nature and scope of the federal government's activities.

With regard to oversight, while the Red Cross has some internal evaluation processes in place, such as after action reviews and surveys of state emergency managers and other stakeholders, Red Cross officials told us that the results of their internal evaluations are typically not made available to the general public. The absence of regular, external evaluations of its disaster services that are publicly disseminated could affect the confidence of both the donating public and the federal agencies that rely on the Red Cross. This is especially true in light of questions

⁷³ For example, the Environmental Protection Agency's IG has provided oversight of the Chemical Safety and Hazard Investigation Board since 2004. GAO, *Inspectors General: Oversight of Small Federal Agencies and the Role of the Inspectors General*, [GAO-14-503T](#) (Washington, D.C.: Apr. 10, 2014).

⁷⁴ Examples include the Denali Commission, which provides economic development services in rural Alaska and is funded by, among other things, annual appropriations to the commission and gifts and donations from non-federal entities; and the Smithsonian Institution, which relies on private funding sources and business activities for about one-third of its annual budget. See [GAO-11-770](#) for listings of federal departments, agencies, and offices with an IG.

raised by the federal government and others in recent years about the organization's performance in disasters. Given the Red Cross's status as an instrumentality of the United States and the critical responsibilities assigned to it by its federal charter and by federal policies, the federal government has a clear stake and role in ensuring that proper oversight takes place.

Matter for Congressional Consideration

To maintain governmental and public confidence in the Red Cross, Congress should consider establishing a federal mechanism for conducting regular, external, independent, and publicly disseminated evaluations of the Red Cross's disaster assistance services in domestic disasters in which the federal government provides leadership or support. This mechanism might involve annual evaluations of whether the services achieved their objectives or of their impact on disaster victims. This evaluation could be performed, for example, by a federal agency such as DHS, by an IG office such as the DHS IG, or by a private research firm under contract to a federal agency.

Agency Comments and Our Evaluation

We provided a draft of this report to the Red Cross and FEMA for review and comment, and provided relevant excerpts to DOD, GSA, IRS, the State Department, and USAID. See appendix II for the Red Cross's written comments and appendix III for FEMA's written comments. We also received technical comments from the Red Cross, FEMA, GSA, IRS, the State Department, and USAID, and made changes to the report as appropriate.

In its written comments, the Red Cross said it agrees there is value in systematic evaluation of its service delivery in domestic disasters where the federal government provides leadership or support. The Red Cross also said it is open to participating in additional reviews or evaluation activities convened by FEMA or other government partners. However, it emphasized its status as a private, nonprofit organization that is independent from the federal government, and stated that it believes its existing governance structure and evaluation mechanisms are appropriate given its nonprofit status. The Red Cross noted, for example, that the American National Red Cross Governance Modernization Act of 2007 made changes to its governance structure intended to reflect modern standards for nonprofit governance; that it has internal evaluation procedures in place such as surveying clients and other stakeholders and

conducting after action reviews; and that it shares information about its disaster services with Members of Congress and their staff.

We recognize that the Red Cross relies on private donations rather than federal funds to support the vast majority of its disaster services, and that its governance and internal evaluation efforts may identify and address some service delivery issues. However, the federal government has a unique interest in ensuring the Red Cross assists disaster victims effectively and efficiently, given the disaster relief duties assigned by its federal charter and its special role in the nation's disaster response system. Only performance evaluations that are independent, federally led or supported, and publicly disseminated can give the federal government and donors assurance that the Red Cross is fulfilling its mission effectively and efficiently and addressing any service delivery challenges.

Our draft report contained a recommendation to the Administrator of FEMA to work with the Red Cross to revise their 2010 memorandum of agreement so that it clearly defines the Red Cross's roles and responsibilities in the recovery phase of disaster relief. In its comments, FEMA agreed with this recommendation and said it expected the updated agreement to be finalized by Sept. 30, 2015. FEMA subsequently informed us that the updated agreement was signed in July and provided us with a copy of the updated agreement. We reviewed the updated agreement and determined that it addresses Red Cross's roles and responsibilities in the recovery phase as envisioned by our recommendation. As a result, we deleted the recommendation from our final report.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to appropriate congressional committees, the President and Chief Executive Officer of the Red Cross, the Administrator of FEMA, and other interested parties. In addition, this report will also be available at no charge on GAO's website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-7215 or sherrilla@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made key contributions to this report are listed in appendix IV.



Andrew Sherrill
Director, Education, Workforce, and Income Security Issues

Appendix I: Emergency Support Functions (ESF) and Recovery Support Functions (RSF) that Include the Red Cross

ESFs for which the Red Cross is included	
ESF Annex Number, Name, and Lead Entities	Red Cross's Key Designated Functions
<p>ESF #5 – Information and Planning Coordinator: Federal Emergency Management Agency (FEMA) Primary Agency: FEMA</p>	<p>As a support agency, the Red Cross (along with all departments and other agencies) is to share critical incident information and participate in planning efforts.</p>
<p>ESF #6 – Mass Care, Emergency Assistance, Temporary Housing, and Human Services Coordinator: FEMA Primary Agencies: FEMA and Red Cross</p>	<p>Acts as both co-lead for the mass care component of this ESF and a support agency for the other components of the ESF. As co-lead, Red Cross:</p> <ul style="list-style-type: none"> — Works with FEMA to identify mass care capacity, anticipate mass care needs, and establish strategies to address gaps in coordination with government agencies at all levels, NGOs, and private sector partners. — Serves as FEMA's principal mass care subject matter expert and provides mass care technical assistance. — Provides disaster relief and preparedness information to the public. <p>As a support agency and service provider, Red Cross works with government, NGO, and private sector entities to provide services to disaster survivors, including sheltering, feeding, and distribution of emergency supplies.</p>
<p>ESF #7 – Logistics Coordinators: General Services Administration (GSA) and FEMA Primary Agencies: GSA and FEMA</p>	<p>As a support agency, the Red Cross provides support to develop a logistics supply chain across the whole affected community by synchronizing pre-disaster planning activities and coordinating during responses to major disasters.</p>
<p>ESF #8 – Public Health and Medical Services Coordinator: Department of Health and Human Services (HHS) Primary Agency: HHS</p>	<p>As a support agency, the Red Cross:</p> <ul style="list-style-type: none"> — Provides for disaster-related health and behavior health needs through direct services and/or referrals. — Supplies information to requesting agencies, including mortality and morbidity and behavioral health trends. — Provides services and personnel for evacuation efforts, health facilities, nursing homes, and morgues. — Coordinates, as HHS requests, blood and services through regional blood centers.

Appendix I: Emergency Support Functions (ESF) and Recovery Support Functions (RSF) that Include the Red Cross

<p>ESF #11 – Agriculture and Natural Resources Coordinator: Department of Agriculture Primary Agencies: Departments of Agriculture and Interior</p>	<p>As a support agency, the Red Cross:</p> <ul style="list-style-type: none"> — Identifies and assesses requirements for food and distribution immediately after a disaster and longer-term needs. — Coordinates with other voluntary organizations in the distribution of food. — Coordinates with organizations providing emergency animal sheltering so people can help care for their own animals. — Provides feeding and other mass care support to animal and agricultural responders when requested.
<p>ESF # 15 – External Affairs Coordinator: Department of Homeland Security (DHS) Primary Agency: FEMA</p>	<p>As a support agency, Red Cross coordinates disaster messaging with federal communicators and provides disaster relief and preparedness information to the public through proactive media outreach, its website, and social media.</p>
<p>RSFs for which the Red Cross is included</p>	
<p>RSF Annex Number, Name, and Lead Entities</p> <p>Health and Social Services Coordinator: HHS Primary Agencies: Corporation for National and Community Service, FEMA, and Departments of Interior, Justice, Labor, Education, and Veterans Affairs</p>	<p>Red Cross’s Key Designated Functions</p> <p>As a supporting organization, the Red Cross is to work with the primary organizations and other supporting organizations to help support the recovery of public health, health care, and social services infrastructure.</p>
<p>Housing Coordinator: Department of Housing and Urban Development (HUD) Primary Agencies: FEMA, Departments of Justice, HUD, and Agriculture.</p>	<p>As a supporting organization, the Red Cross is to work with the primary organizations and other supporting organizations to help disaster survivors and others who choose to live in recovering communities transition from shelters or other areas into permanent housing.</p>

Source: FEMA. | GAO-15-565

Note: The Red Cross is also included as a supporting organization under the Community Planning Capacity Building RSF. However, a formal document laying out the key functions of the partner organizations had not been finalized at the time of our review.

Appendix II: Comments from the American Red Cross



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July 10, 2015

Mr. Andrew Sherrill
Director, Education, Workforce, and Income Security Issues
Government Accountability Office
441 G St. N.W.
Washington D.C. 20548

Re: *GAO-15-565: Draft Report on American Red Cross Disaster Assistance*

Dear Mr. Sherrill:

The American Red Cross appreciates the opportunity to comment on the Government Accountability Office's (GAO) draft report on our coordination with Federal Emergency Management Agency (FEMA) and mechanisms for evaluating our disaster relief services. We welcome feedback and are committed to making any improvements that will help us better serve the needs of individuals and families in disasters and emergencies.

The American Red Cross is a private, non-profit, humanitarian organization, categorized by the Internal Revenue Service as a 501(c)(3) charity, dedicated to helping people prepare for and recover from disasters large and small. Every year, the victims of nearly 70,000 disasters – most of them house fires - rely on the Red Cross for immediate help, including food, shelter, health and mental health services, and relief items. During calendar year 2014, the Red Cross launched 138 large relief operations in 43 states and U.S. territories. Disaster relief has been one of the main parts of the Red Cross's charitable mission since the organization was founded more than 125 years ago.

In performing our mission in disasters, we rely on the generosity of the public. More than 99% of the funds the Red Cross uses to respond to disasters in the U.S. come from the private sector - not the U.S. Government - and about 90% of our disaster services workforce is volunteers. The American Red Cross is not a federal agency¹ and our employees are not federal government employees. The small amount of federal money we receive for disaster services – less than one percent of our disaster program budget – is from grants for specific projects or items. The Red Cross is governed and overseen by a board comprised of private individuals who serve without pay and are committed to the Red Cross mission. Although the Red Cross works closely with federal, state, and local governments to plan, prepare for and

¹ See, e.g., *Irwin Memorial Blood Bank v. American Nat'l Red Cross*, 640 F.2d 1051 (9th Cir. 1981).

Page 2 of 5
Mr. Andrew Sherrill
July 10, 2015

respond to disasters and has been identified as a federal instrumentality, we remain independent and autonomous in accordance with the fundamental principles of the Red Cross Red Crescent Movement to which the U.S. Government has ascribed for fifty years.

Coordination with the Federal Government on Domestic Disasters

The American Red Cross works closely with local, state, and federal government agencies and officials to plan, prepare for and respond to disasters. We have an extensive network of chapters and disaster personnel that coordinate with state and local emergency management and public health agencies, among others, to identify the community's disaster-related needs and make plans to ensure the needed services and resources are available.

At the federal level, the Red Cross's coordination with FEMA and other federal agencies is extensive and effective with respect to disaster response and, of special note, with respect to recovery as well. The framework for this Red Cross coordination is described in federal planning documents, including:

- the National Response Framework,
- the Emergency Support Function Annexes (in particular ESF 6, which details the Red Cross's leadership role in mass care in a Presidentially-declared disaster),
- the National Disaster Recovery Framework,
- the Recovery Support Function Annexes, and
- the Federal Interagency Operational Plans.

The framework for the Red Cross's coordination with FEMA is also described in a Memorandum of Agreement. A new, updated version of the Memorandum of Agreement, which elaborates on how the Red Cross and FEMA coordinate in a disaster's recovery phase, will go into effect when the 2010 version expires on July 31, 2015.

The Red Cross's coordination with FEMA and other federal agencies is not simply a function of written agreements, however. More important is the way we work together every day. The Red Cross and FEMA maintain excellent communication at all levels to ensure that the activities of the Red Cross and FEMA are in alignment and in the best interest of the American people. For example:

- The Red Cross is an integral part of the Emergency Support Function Leadership Group and Recovery Support Function Leadership Group, both of which meet on a monthly basis to conduct exercises and address critical areas of support and coordination.
- During a disaster response the Red Cross assigns liaison officers to all federal operations centers to coordinate with the ESFs and RSFs.

Page 3 of 5
Mr. Andrew Sherrill
July 10, 2015

- Red Cross and FEMA share shelter information and other service delivery data.

Evaluation of Red Cross's Disaster Assistance Services in Domestic Disasters

The Red Cross agrees with the GAO that a systematic approach to evaluating our service delivery in domestic disasters where the federal government provides leadership or support can help us to improve such services. In fact, during the past few years the Red Cross has revamped its evaluation process to generate more meaningful, metrics-based, and regular information about our domestic disaster services. Performance evaluation and improvement mechanisms are embedded in the organization design. The Red Cross also does the following:

- conducts surveys of the people we help, Red Cross workers (including volunteers), and government and non-government partners, such as state and local emergency management agencies;
- conducts after-action reviews; and
- participates in after-action reviews convened by government partners.

We are always open to suggestions about how to make our evaluations more robust, relevant, and constructive. We would welcome additional opportunities to participate in assessments and after-action reviews conducted by our state and federal partners.

The Red Cross has a long-standing practice of sharing information about our disaster services with Members of Congress and their staff throughout all phases of the disaster cycle, and we intend to continue this practice. We engage with Congress by providing briefings and written reports on our activities, assisting with services for constituents as requested by Congressional offices, testifying before Congressional committees when requested, and meeting with individual Members of Congress and their staff in Washington, D.C. and in their home states and districts. During a disaster response we provide Members of Congress with regular updates about our operations in their communities.

The Red Cross governance structure is designed to ensure that the organization uses its donated resources to effectively and efficiently accomplish its mission. In 2007 Congress passed the American Red Cross Modernization Act which made significant changes to the Red Cross Charter to reflect modern standards for the governance of non-profit corporations. As noted in the House of Representatives' Foreign Affairs Committee report accompanying the Modernization Act, the changes brought about by the Act "will undoubtedly help promote the kind of leadership necessary to make Red Cross management and [disaster response]

Appendix II: Comments from the American Red Cross

Page 4 of 5
Mr. Andrew Sherrill
July 10, 2015

operations run more smoothly.”² Among other things, the 2007 Modernization Act:

- redefined the role of the Board of Governors, so that the Board of Governors is responsible for overseeing the management of the corporation;
- created the Office of the Ombudsman, which reports directly to the Chief Executive Officer and submits an annual report to 10 Congressional committees:
 - Senate Committee on Finance;
 - Senate Committee on Foreign Relations;
 - Senate Committee on Health, Education, Labor, and Pensions;
 - Senate Committee on Homeland Security and Governmental Affairs;
 - Senate Committee on the Judiciary;
 - House Committee on Energy and Commerce;
 - House Committee on Foreign Affairs;
 - House Committee on Homeland Security;
 - House Committee on the Judiciary;
 - House Committee on Ways and Means; and
- established that the GAO may review the Red Cross’s involvement in any federal program or activity the Government carries out under law.

Other important elements of Red Cross governance include:

- Board of Governors that, under the Bylaws, is comprised entirely of independent members;
- Board of Governors Audit and Risk Management Committee;
- annual audit by an external auditor (currently KPMG);
- review of the annual audit by the Department of Defense;
- Red Cross’s Internal Audit Department, led by the Chief Audit Executive;
- Red Cross’s Office of Investigations, Compliance and Ethics; and
- annual submission of a 990 tax return to the Internal Revenue Service.

Detailed information about the Red Cross’s governance (including copies of our Congressional Charter, Bylaws, annual financial statements, 990 tax returns, and Ombudsman reports) is available on our website, www.redcross.org. Also available on our website are publications about our activities in major disasters, how we spend donations, and other topics.

We believe the Red Cross’s existing governance structure and evaluation mechanisms are appropriate for a private, 501(c)(3) charitable organization. At the same time, we would be happy to participate in additional reviews and evaluation activities convened by FEMA and other government partners.

² House Report 110-87 (April 16, 2007)

Page 5 of 5
Mr. Andrew Sherrill
July 10, 2015

We hope that these comments provide helpful context for the GAO's findings and recommendations.

Sincerely,



Lori Polacheck
Associate General Counsel

Appendix III: Comments from the Federal Emergency Management Agency



July 1, 2015

Andrew Sherrill
Director, Education, Workforce, and Income Security Issues
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Re: Draft Report GAO-15-565, "EMERGENCY PREPAREDNESS: Red Cross Disaster Assistance Would Benefit From Enhanced Coordination and Oversight"

Dear Mr. Sherrill:

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security (DHS) appreciates the U.S. Government Accountability Office's (GAO) work in planning and conducting its review and issuing this report.

DHS is proud of the Federal Emergency Management Agency's (FEMA's) partnership with the American Red Cross (Red Cross) to jointly lead the planning and coordination of mass care services. This partnership has strengthened and expanded the "whole community" approach to emergency management and greatly improved the resources available to effectively and efficiently help shelter, feed, provide emergency first aid, and deliver supplies to survivors of a disaster. By leveraging the resourcing strengths of the federal government and the sheltering, feeding and bulk distribution expertise of the Red Cross, FEMA continues to demonstrate its support of our citizens and first responders to ensure that as a nation we work together to build, sustain, and improve our capability to prepare for, protect against, respond to, recover from, and mitigate all hazards.

The draft report contained one recommendation with which the Department concurs. Specifically, GAO recommended that the FEMA Administrator work with the Red Cross to:

Recommendation: Revise their memorandum of agreement so that it clearly defines the Red Cross's roles and responsibilities in this area [the recovery phase of disaster relief], and how Red Cross officials will complement the work of FEMA and other federal agencies.

Response: Concur. As part of on-going discussions to renew their Memorandum of Agreement, FEMA and Red Cross officials are considering revisions to more clearly define the Red Cross's roles and responsibilities in the recovery phase of disaster relief

and how the Red Cross can complement the work of FEMA. FEMA's Recovery Directorate has the lead for this activity and estimates completion no later than September 30, 2015.

Again, thank you for the opportunity to review and comment on this draft report. Technical comments were previously provided under a separate cover. Please feel free to contact me if you have any questions. We look forward to working with you in the future.

Sincerely,



Jim H. Crumpacker, CIA, CFE

Director

Departmental GAO-OIG Liaison Office

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Andrew Sherrill (202) 512-7215 or sherrilla@gao.gov

Staff Acknowledgments

In addition to the contact named above, Scott Spicer (Assistant Director), Lorin Obler (Analyst-in-Charge), Jessica Botsford, Peter Del Toro, Helen Desaulniers, Holly Dye, Charles Fox, Amanda Gooden, Leslie Holen, Kathy Leslie, David Lysy, Sheila McCoy, Walter Vance, Sarah Veale, and Paul Wright made key contributions to this report.

Related GAO Products

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