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Attorney General Lockyer, American Red Cross Reach Agreement on Reforms of Charity's Solicitation, Executive Compensation Policies

Protections Against Excessive Pay, Donor Deception Have Potential National Application

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(SAN DIEGO) – Attorney General Bill Lockyer today announced the American Red Cross (ARC) will maintain reforms of its executive compensation and disaster relief solicitation practices under an agreement with Lockyer's office that specifically covers ARC's California chapters but could well be applied nationwide.

"By protecting against excessive pay and strengthening fundraising disclosure, this agreement will benefit the Red Cross, its donors and disaster victims in desperate need of aid," said Lockyer. "The Red Cross deserves credit for working with my office to address its problematic compensation and solicitation practices. Hopefully, the reforms in this agreement will provide an operational template for Red Cross chapters across the country. I'm encouraged the organization already has taken steps toward that objective."

The contractual agreement resolves Lockyer's investigation of the ARC's San Diego and Imperial Counties Chapter (SDIC), launched in 2002 by the Attorney General's charitable trusts section. The probe focused on possible violations of state laws governing nonprofit corporations. Specifically, the investigation examined allegations of improper handling of relief funds raised for victims of the 2001 Alpine-Viejas Fire, excessive executive compensation and deceptive solicitation practices by both the ARC and SDIC.

Based on the investigation, Lockyer's office concluded: The ARC and SDIC failed to properly restrict certain donations made to aid victims of the Alpine-Viejas fire; the ARC's Donor DIRECT fundraising program misled contributors by not informing them that, if they wanted their money earmarked for victims of a particular disaster, they had to specifically declare that intent; the ARC's policies and procedures governing executive compensation were wholly inadequate and provided virtually no national oversight of local chapters; and Dodie Rotherman, former CEO of the SDIC, was substantially overpaid during fiscal years 1997-2001.

After Lockyer's office presented the findings of its investigation to ARC and SDIC officials, the ARC agreed to distribute roughly \$55,000 to Alpine-Viejas fire victims. Additionally, the ARC took steps to improve its executive compensation practices and adopted new language for its Donor DIRECT program that strengthens disclosure to prospective contributors. Those reforms are memorialized in the agreement with Lockyer's office. The agreement will be enforced as a contract, with violations subject to lawsuits for damages caused by the breach.

The compensation reforms significantly bolster oversight by the national ARC of executives' initial pay, merit salary adjustments and bonuses. The ARC has implemented the new procedures nationwide.

Regarding initial hiring, the national ARC's Human Resources Department now conducts a compensation analysis of each chapter's executive positions – based on market-driven data for nonprofits – and provides a base salary range to the chapter. Based on the analyses provided by the national organization, "Service Area Executives (SAE)," who have responsibility for a number of local chapters, approve compensation packages before they are offered to prospective hires. If local chapters want to exceed the parameters set by the national ARC by more than 25 percent, they must obtain approval from the national ARC's senior vice president for service areas.

The compensation reforms also strip local chapters of their ability to approve salary adjustments and bonuses. Instead, raises and bonuses must be approved by the SAEs, again based on guidance provided by the national ARC. The guidance includes recommendations for annual salary budgets, a template for chapter executive incentive plans, and measurable, objective criteria for determining whether raises or bonuses are merited.

Under the agreement with Lockyer's office, Donor DIRECT solicitations for the ARC's national disaster relief fund, conducted in California through print media, direct mail or email, will include the following statement: "The American Red Cross honors donor intent. If you wish to designate your donation to a specific disaster please do so at the time of your donation." If the solicitations are conducted in California on radio or television, the solicitation must refer prospective donors either to the ARC's web site or its toll-free phone lines, which must provide the new disclosure statement.

The Donor DIRECT reforms address widespread concern that the ARC's solicitations misled donors into thinking their contributions would be used to aid victims of a particular disaster. The new solicitation language will educate donors that they need to state their intent if they want their contribution used for a specific disaster.

The solicitation reforms in the agreement apply only to campaigns conducted in California. However, Lockyer's office believes practical concerns will convince the ARC to adopt the stronger disclosure nationwide.

The agreement requires ARC to pay \$135,000 to the Attorney General's Office to help cover its investigation costs.

Attachments for this Release

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