

September 25, 2002

The Honorable Charles E. Grassley
Ranking Member
Committee on Finance
United States Senate
Washington, DC 20610-6200

United Way Of The National Capital Area

Dear Senator Grassley:

This letter will respond to those matters relative to United Way of the National Capital Area (UWNCA) that were raised in your letter of August 20, 2002, addressed jointly to Mr. Brian Gallagher of the United Way of America and Mr. Norman O. Taylor, then Chief Executive Officer of the United Way of the National Capital Area. Mr. Taylor has left his position of Chief Executive Officer, so I am responding in my capacity as Chief Volunteer Officer and Acting President of the Board of Directors.

We are happy to respond to your letter because it gives us the opportunity in a public and appropriate forum to set the record straight with regard to UWNCA operations. Over the past several months, UWNCA has been the subject of criticism, some of which has been deserved. We recognize there are changes we need to make to address real problems. I can assure you we have.

Unfortunately, some of the criticism has been misinformed and inaccurate. This is particularly troubling because the effect of this misinformation will be felt keenly by the nonprofit agencies UWNCA supports and the less fortunate in the community these agencies serve. You correctly characterize a number of these reports as allegations and we thank you for understanding the often very broad distinction between allegation and truth.

We share your belief that public trust in what we do is critical to the success of our efforts to raise funds to meet the urgent social service needs in the National Capital Area. Recognizing that the public's trust in our organization has suffered, we recruited an impressive, blue-ribbon panel of community leaders led by Rodney Slater, former Secretary of Transportation, to review our operations in depth and to make recommendations for change. Much of our response to your

letter comes directly from the report of this panel (Tab A), not from opinions of UWNCA executives or staff whose responses under the circumstances might be questioned by some. The stature and integrity of this panel should give you and the public substantial comfort that the problems have been identified, and that real solutions are at hand.

I will respond to your questions in the order in which they appear in your letter.

1. You asked us to describe the reforms and cost cutting measures UWNCA has taken.

The response to this request will be lengthy because much has been done.

- a. We have restructured UWNCA's Finance Department to strengthen internal controls. A Chief Financial Officer was hired in February 2001 and a Controller was hired in March 2001. Both are CPAs with management experience. A new general ledger accounting assistant was also hired.
- b. A manual reconciliation process responsible for time delays in to better handle the thousands of checks issued to agencies each month.
- c. Cash management tools have been implemented to assist staff in performing analytical reviews and documenting cash flow trends for comparative purposes in subsequent years. Cash receipts, by source, are tracked monthly on spreadsheets by bank account. Likewise, agency and operational disbursements are tracked monthly by bank account. These spreadsheets are analyzed monthly to determine when bank accounts have excess funds that should be transferred to investment accounts. In addition, investment account balances and investment income are monitored monthly.
- d. Corporate credit cards and cell phones have been completely eliminated. While these are common tools for doing business, we have decided that they project the wrong image for a charitable organization. Employees will be reimbursed for legitimate business expenses, but only in strict compliance with reimbursement guidelines and only when documentation meeting those guidelines is attached to the reimbursement request. Entertainment expenses have been prohibited. Monthly expense reports will be submitted to the Board.
- e. UWNCA has adopted a policy of requiring competitive bidding for any contract over \$10,000.

- f. UWNCA has adopted a policy prohibiting the sale of used vehicles or property of any sort to employees.
- g. Management has tightened controls on the accrual of sick and annual leave so that UWNCA's liability for the cost of this benefit can be better controlled. Management has automated the tracking of sick and annual leave in the new, outsourced payroll system. Vacation and sick leave have been added to employee pay stubs as an additional control in this area.
- h. UWNCA has adopted a recommendation of the Slater Task Force that United Way of America campaign reporting guidelines be used to ensure transparency to the donor community.
- i. UWNCA's policy has historically been to hold back a percentage of the amount pledged to each agency to cover uncollectible pledges and to use this risk pool to finance twelve level monthly payments. This policy has eliminated a substantial cash flow risk to agencies. However, the amount held back was an estimate and often did not square precisely with the uncollectible pledge amount. The Slater Task Force recommended that the policy be eliminated in favor of a policy of promptly distributing all cash received for an agency. A survey has been sent to agencies to determine if the resultant risk of a variable cash flow is acceptable to them for the 2002 Campaign.
- j. An Audit Committee of the Board consisting of some individuals completely independent of the organization will be established.
- k. The Executive Vice President of the organization (otherwise referred to here as the Chief Executive Officer) will be required to certify the organization's financial information to the Board and to the public on an annual basis.
- l. An annual report will be issued to the public that includes a detailing of campaign revenues, overhead costs, fee arrangements, special grants and program services.

2. You asked for an explanation of UWNCA's overhead expenditures and how they might be reduced.

The combined operations of UWNCA for Fiscal Year 2001 (the last fully audited campaign) that included \$50 million in pledges from the Combined Federal Campaign (CFC) yielded an overhead rate of 10% as reflected on our organization's IRS Form 990.

Overhead for Fiscal Year 2001 for the CFC was capped at a maximum of 4%. During Fiscal Year 2001, the actual overhead cost for the CFC was kept to the agreed upon 4%. This compares favorably with the overhead costs of other CFC operations across the country.

When the CFC is excluded from operations and undesignated and designated dollars are analyzed separately, contributor dollars are distributed as follows:

Designated dollars - 93 % of every dollar collected went to agencies specified and 7% went to overhead (fundraising costs, management/general expenses and processing costs).

Undesignated dollars - 38% went to community services funds program grants and grants by the Board to community organizations/programs (e.g., Foundation for the National Capital Region and the Military Dependent Youth Activities Programs) ; 14% was used by United Way for community impact programs; 23% went to overhead and 25% was added to reserves in that fiscal year.

Administrative spending consists of fundraising costs and management and general expenditures. The major non-personnel fundraising costs relate to communications-related expenses e.g., printing services, artwork and design, media production, fundraising events and meetings, and donor recognition. The major non-personnel management and general costs relate to rent of regional offices, telephone, postage, data processing supplies, office supplies, audit fees, electricity, building and equipment maintenance, computer contract, reimbursement of approved employee business-related expenses, community meetings and staff training.

As a side note, reserves were utilized in 2002 (1) for administering the September 11th Fund for which no administrative charges were assessed to donor gifts; (2) to ensuring that agencies continued to receive funding while pledge collections to UWNCA were interrupted due to the anthrax scare closing the Brentwood Post Office; and (3) increasing the amount available for agency funding by \$500,000.

A primary recommendation of the Slater Task Force was to adopt a uniform campaign fee of 10% for both designated and undesignated donations. Assuming a \$45 million non-CFC campaign, this 10% fee would support overhead of \$4.5 million. Accordingly, the Slater Task Force recommended a dramatic cost reduction program to take the organization's costs from the current \$7.6 million to \$4.5 million. The majority of the organization's costs are tied up in staff salary and benefits. The Slater Task Force recommended, and the Board has adopted, a plan to reduce staff from the current 90 FTEs to 60 FTEs. In the communications area, we are exploring cost savings that may be

achieved by bundling as many of the campaign related elements as possible and developing an RFP to outsource those efforts to one company. This could result in personnel and non-personnel savings in the communications department. In the management and general area, we are consolidating regional offices from seven to two. Consolidation of regional offices will lower many administrative expense line items without affecting the services we deliver to the community.

3. You asked for a description of the sources and amounts of UWNCA funding.

United Way received no funding from government entities. All costs recovered from administering the CFC are derived from charges to the agencies participating in that campaign. The table below shows the services of funds received by UWNCA for the preceding five years.

Fiscal Year	Contributions, Gifts, Grants, ETC.	Interest Income form Temp. Investments	Overhead Reimbursement Revenue from Non-United Way Agencies in CFC
1997	\$74,798,940	\$502,624	\$916,835
1998	\$73,781,752	\$609,994	\$1,018,017
1999	\$77,948,933	\$699,087	\$1,100,269
2000	\$81,222,919	\$858, 523	\$1,091,508
2001	\$85,256,102	\$1,208,557	\$1,034,663

UWNCA has fundraising personnel on its staff but over the past five years has not entered into any contractual arrangements with outside professional fundraisers.

There is no money allocated to “joint costs” on UWNCA’s Internal Revenue Service form 990. Therefore, your request to “describe the program services as part of the joint cost” is not applicable.

Copies of the Form 990 for each of the past five years are attached. (Tab B).

4. You asked for information on the procedures for investigating allegations that reflect negatively on the management and financial accounting of the organization.

a. Until Mr. Dembling’s allegations were made, I am unaware of any other allegations that reflected negatively on the organization’s management or financial accounting. UWNCA’s finances have been audited on a yearly basis in accordance with law and the audits have been made public. These audits have never resulted in allegations of mismanagement. Accordingly, UWNCA had no experience with, or

established procedures for, investigating allegations of mismanagement. I will describe for you what we did in the case of Mr. Dembling's allegations, and the additional steps we have taken since.

Under the bylaws of the organization, the Administration & Finance Committee of the Board has the responsibility for administration of UWNCA, as well as proposing to the Board for final approval policies with respect to all administrative and financial matters, and determining personnel policies. When Mr. Dembling's allegations were brought to our attention, they were immediately referred to the Administration & Finance Committee for investigation. That Committee reported to the Board that the allegations were unsubstantiated. Our usual outside auditor, Councilor, Buchanan & Mitchell, was asked by the Board to look into the Dembling allegations. Later the Board directed that this audit be conducted by a firm that had not been involved with auditing UWNCA's books, not only of the allegations made by Mr. Dembling, but of all allegations of which we were then aware and that had been made from any source. As the allegations related primarily to matters arising since February 1, 2001 when Mr. Taylor became Chief Executive Officer, the period covered by the audit was February 1, 2001 to November 1, 2001. The firm chosen to do this audit was McGladrey & Pullen, a large national firm. The report of their findings is attached (Tab C). Their report was supplemented by a report by the outside general counsel of UWNCA, Kator, Parks & Weiser. The supplemental report is also attached (Tab D).

Pursuant to the recommendations of the Slater Task Force, which were unanimously adopted by our Board on September 5, 2002, a new code of ethics entitled "A Covenant Of Trust: Our Code of Conduct" was put in place. The subcommittee that produced this document was led by Samuel Dash, Professor of Law at Georgetown University. It creates mandatory rules, including a rule requiring that any breaches of the code be reported and ensuring against any retaliation for doing so. The Board has also adopted the recommendation that an Ethics Officer for the organization be selected to whom such breaches may be reported, and that an Ethics Committee of the Board be created. We are presently soliciting appropriate names for the Ethics Officer and will form the recommended Committee promptly. In the future, we will expect the Board to consult with that committee and the Ethics Officer, perhaps using him or her to conduct any investigation of alleged impropriety.

One other recommendation of the Slater Task Force should be noted. Its report stated:

[T]he Board must take additional actions to ensure that there is full understanding of and accountability for errors of the past. The continuing exposure of new allegations of past misdeeds creates a substantial barrier to the organization's ability to move forward. There needs to be a definitive accounting of the past that is disclosed to the public, while being proactive in cooperating fully with the U.S. Attorney and any other legitimate investigations. The Board also needs an assessment on whether malfeasance has occurred and, if so, the extent to which the organization should pursue civil action.

Accordingly, the Board has decided to retain the services of a competent professional organization to conduct an audit free from the constraints of any agreed upon procedures and to ask this firm not only to review the period covered by the McGladrey & Pullen report, but to inquire into earlier periods. So far we have received two proposals for this work and are soliciting others.

b. You inquired as to the truthfulness of the allegations made by Mr. Dembling concerning travel not related to business purposes, reallocation of money budgeted for restroom improvement to decorate the office of the Chief Executive Officer, a consulting contract for the former Chief Executive Officer at \$6000 per month and up to \$5000 in monthly expenses. These allegations were reviewed by our Administration & Finance Committee and later by both Councilor, Buchanan & Mitchell and by McGladrey & Pullen. They were found for the most part to have no validity.

Mr. Dembling's letter to the Board said that the following issues relating to travel merited our concern and attention:

- Allegations of excessive travel and travel unrelated to UWNCA business by the CEO and others on the staff.
- Travel by key volunteers that have been paid for by UWNCA in violation of the organization's by-laws and/or policies.

Mr. Dembling was asked for, but never produced, any specifics supporting the allegations. In a January 23, 2002, article, the Washington Post reported Mr. Dembling as having said, "My intent was

to say that these things were raised with me. I don't know if they are true or not" Neither the internal investigation by the Administration & Finance Committee nor the audits by two independent audit firms revealed that travel unrelated to business occurred. In one instance the previous volunteer President of the Board was requested by management to attend an out-of-town United Way conference while she herself was away from Washington attending a business meeting. Because this required her to leave her meeting and travel from the location of that meeting and then to return after attending the United Way conference, which also was outside Washington, her travel expenses in the amount of \$930 were initially paid by UWNCA. While the practice of volunteers over the years has been to pay their own travel expenses to attend out of town conferences, we were advised by counsel that the organization's bylaws does not prohibit such payment on behalf of a volunteer, except to attend meetings of the Board itself. Nevertheless, to avoid any possible controversy regarding this payment, the volunteer leader wrote her own check to UWNCA to repay the amount in question.

The allegation concerning the diversion of funds to decorate the office of the CEO was determined to be wholly without merit. Mr. Dembling alleged that the Board had been misled about the purpose of an \$85,000 line item in the budget. According to Mr. Dembling, while the Board had been told that the item was for the purpose of upgrading the building infrastructure, "the lion's share of the \$85,000 -- in excess of \$50,000 -- is going toward an expensive renovation of Mr. Taylor's office. . . ." To the contrary, however, McGladrey & Pullen found that there were two separate contracts, each identified in the proposed capital budget for the fiscal year ended June 30, 2002. One of these was clearly for renovation of bathroom facilities to make them accessible to the handicapped and a renovation to the boiler room (\$20,362) and the other was clearly for renovation of offices (\$39,975). The contracts were let to separate firms. Neither the work on nor the funds for the bathroom and boiler renovation was diverted to office renovation. Far from redecoration of the CEO's office, the office renovation contract carved out three additional offices from the CEO's former space, resulting in a more efficient use of UWNCA resources.

A one-year consulting contract to the former Chief Executive Officer, Oral Suer, was let at \$6000 per month for one year but it did not provide for expenses of \$5000 per month. Total expenses in connection with the consulting contract were approximately \$11,000, a good part of which represented travel expenses and fees to attend conferences at the request of management.

The Administration & Finance Committee, composed of a substantial number of Board members, considered the desirability of contracting with Mr. Suer to aid in the transition to the new management. Members

of that Committee who attended the relevant meeting knew about the contract. At the time the contract was made, which was before Mr. Taylor took office in February 2001 and was a decision in which he played no part, the practice was for the Administration & Finance Committee to enter into employment contracts on behalf of the organization without recourse to the full Board. The Administration & Finance Committee had followed this practice for many years under the previous management team, presumably pursuant to its authority to make personnel policy. It is correct that no formal action on the contract was taken by the full Board.

That procedure has now been changed. The Board has now implemented a requirement that all contracts of \$10,000 or more must have Board approval. The budget itself must, of course, be acted on by the full Board. Additionally, on a quarterly basis, management is required to report to the Board on expenditures for specific budget categories relative to amounts budgeted for administration and other expenses.

c. None of the conduct about which you inquired was in violation of any UWNCA regulation or guideline. Hence there was no penalty involved.

d. I have mentioned in earlier subparagraphs several improvements in controls and procedure that have been instituted by UWNCA.

Your letter notes a Washington Post report that UWNCA has taken credit for millions of dollars in contributions it never handled. This issue has been widely misunderstood and we are taking steps, at the Slater Task Force's recommendation, to clarify reporting mechanisms. In some instances, at the request of corporate donors, UWNCA has reported as part of its campaign totals corporate gifts that have been made directly to community agencies. This type of "direct pay" will no longer be reported as part of UWNCA's fundraising totals, since UWNCA does not provide fundraising support for the gifts. Not all direct pays are in this category. Some are the result of substantial UWNCA fundraising activity even though UWNCA does not distribute the money. Reporting these direct pay situations is in compliance with the United Way of America's campaign reporting guidelines, which provide that they are to be included when the local United Way organizes the campaign, provides speakers and campaign literature, donation forms and other campaign materials.

The Slater Task Force report addressed the direct pay issue. It recommended that UWNCA continue including direct pay amounts in its campaign totals, even where it does not "handle" the donations, if it plays a substantive role in the workplace campaign. These amounts will be separately identified in campaign reporting. In campaigns where

UWNCA does not play a substantive role, even where the employer requests that its donations be included in UWNCA totals, the Slater Task Force recommended that UWNCA not include them. Both recommendations of the Task Force have been adopted by our Board and are now UWNCA policy.

e. We cannot state with assurance whether any UWNCA employee has violated "a regulation or guideline" over the past five years, but we can state that we will take action when appropriate if violations are found to have occurred. During that time some employees have been discharged for inappropriate conduct. We do not recall any violations by a volunteer. However, our investigation of employee conduct over the past five years is ongoing, as I have described. In the event that any misconduct is discovered, we will not tolerate it. With the advice of counsel, we will take corrective action with respect to any current employee who is found to have engaged in misconduct and will pursue any former employee in legally appropriate fashion. In this connection, we have preliminarily determined that the former Executive Vice President, Oral Suer, received a distribution from the UWNCA pension plan before the plan permitted him to do so. We are awaiting advice from the plan actuary with respect to the extent, if any, that this inappropriate distribution harmed the plan. If we are advised that harm was done, we will instruct our counsel to take all appropriate steps to recover the amount of the harm from Mr. Suer.

5. You inquired as to guidelines and related requirements with respect to conflicts of interest.

Until the adoption of the Code of Conduct, the Bylaws (Tab D), which limit the terms of officers and Board members and the Personnel Manual (Tab E), which speaks to outside employment, were the documents relative to the issue of conflict of interest. Our current employee manual addresses conflicts of interests in regards to outside employment and provides a way to resolve such issues. Of course, the background of all candidates for the Board are reviewed by the Nominating Committee so that evident conflicts can be avoided.

With the Board's adoption of the Code of Conduct proposed by the Slater Task Force, a positive program to avoid conflicts is established. Its essence is embodied in nine separate ethical standards set out by the Task Force entitled, "Loyalty." It covers all potential conflicts and requires a positive commitment on the part of each employee and volunteer to avoid conflicts. Core Standard 10.2 states "We will report potential or actual breaches of the Code." The establishment of an Ethics Committee and the appointment of an Ethics Officer will further encourage compliance. With respect to the specific items in your letter a-f, please note that reporting of violations of the Code of Conduct, including any conflicts of interest, is now mandatory for staff and

volunteers. The Ethics Officer is charged with assuring that conflicts do not exist and if they do, he or she is required to report this to the Ethics Committee.

Moreover, we expect that the Ethics Committee, which will have three public members with no affiliations with UWNCA, will develop a vigorous ethics program to include certain reporting requirements and that all reports would be reviewed by the full Ethics Committee.

6. You inquired as to regulations or guidelines governing the UWNCA's obligations to its Board, relating particularly to responsiveness and disclosure responsibilities.

This is not so much a matter of regulation or guidelines, as it is a matter of organization and delegation. The Executive Vice President makes regular reports to the Board. The Executive Vice President has a regular place on the agenda of each Board meeting during which he updates the Board on all relevant activities. The Chief Financial Officer is now required to make quarterly financial reports to the Board and attends all meetings of the Administration & Finance Committee. Their obligation is to be fully responsive to Board direction and to keep the Board fully informed on all matters of significance which might affect the Board's governance responsibilities. The Board must approve the budget.

I am not personally aware of any information requested by the Board which has not been made available to it by management. When requests are made by the Board for information, in my experience this has always been provided.

We believe that since February 2001 when new management took office, management's obligations to the Board in terms of openness and responsiveness have been fulfilled. The audits and the grand jury investigation now underway will need to provide the answer in this regard as to past management's performance and responsiveness. We do not know at this time, of course, what the grand jury will conclude, if anything.

Combined Federal Campaign

With your indulgence, I want to take this opportunity to comment briefly with respect to your press release of September 13, 2002 and your letter to Director James of the Office of Personnel Management (OPM).

UWNCA has administered the local Combined Federal Campaign for many years and with singular success as witnessed by overall increased gift giving and increases in the per capita gift as well by OPM audits confirming the quality of the local CFC program. UWNCA is fulfilling its responsibilities for conducting the campaign and there is no reason to believe it will be unable to do so in the future. There has been no

change in UWNCA personnel directing the campaign and in fact, the campaign has been underway in government agencies since the beginning of the month. We are hopeful that despite matters that have arisen regarding our organization, the campaign will be very successful.

Your press release speaks to charges of alleged mismanagement and misuse of funds for personal gain. I hope our responses in this letter have assured you that these allegations are untrue. We are unaware that any funds have been used for personal gain. We recognize and appreciate your concern for the conduct of the CFC. That campaign has been extremely important in the Washington Metropolitan Area raising needed dollars so social service agencies can serve those in need. Over the years the campaign has grown and flourished with UWNCA acting as the Principal Combined Fund Organization (PCFO). All CFC funds have been carefully safeguarded and separately accounted for. We believe we have done an efficient and effective job with the CFC and none of the allegations were directed in any way to the CFC campaign. We hope to continue as PCFO and to build the campaign to even greater success.

New Interim Executive Vice President

On September 19, 2002, UWNCA announced the selection of Robert L. E. Egger as its Interim Executive Vice President. Mr. Egger formerly was the Executive Director of the D.C. Central Kitchen, an innovative agency that has received national attention. Mr. Egger has received accolades for his leadership and vision, included among which are the 2001 Washingtonian Magazine-Washingtonian of the Year the 2001 Bender Prize for Outstanding Community Services and many others. His resume is attached at Tab F. The Selection Committee was impressed with Mr. Egger's demonstrated leadership success and his passion for United Way.

In summary, our well-publicized problems have resulted in an aggressive response, involving the adoption of the recommendations from a blue-ribbon panel, numerous changes to financial procedures, new transparency and reporting measures and a state-of-the-art ethics program. We understand completely that our continued relevance to the community is a matter of trust and we are fully engaged with the effort to restore that trust.

Thank you for the opportunity to respond to your letter. We would appreciate the opportunity to meet with you or your staff at any time to go over these matters in more detail and to keep you informed as our United Way moves ahead to implement the Slater Task Force report. We will indeed be a different organization and we would be glad to share with you these changes as they progress.

Sincerely,

A. Neal Barkus
Chief Volunteer Officer
Acting President
United Way of the National Capital Area