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Series E: General Alphabetical Files. 1960-1992

Box 81, Folder 7, Covenant House oversight committee, 1990.

Action By Board

February 27, - March 27, 1990

- Feb. 27 Board of Director Meeting
- Accepted - Accepted Governance of Covenant House
 - Father Bruce's Resignation
 - Frank Macchiarola's Resignation
 - Adopted - Action Program For Outside Consultants
 - Appointed - James Harnett Acting President
- Feb. 28 Appointed - Dick Shinn to review Management Compensation Policy
- Mar 3 Accepted - resignation of Mr. Maguire & Dr. Kennedy
- Mar 5 Appointed - Kroll Assoc. for outside Review Board of Directors meet
- Mar 7 Appointed - Cravath, Swaine & Moore General Counsel
- Accepted - Resignation of Burns, Kennedy et al
- Mar 9 Held Press Conference with Mr. Ralph A. Pfeiffer, Jr., Cardinal O'Connor and Mr. Robert Maguire.
- Announced - Oversight Committee
 - Search Committee
- Mar 14 Board of Directors Meeting
- New Search Firm - Russell Reynolds
 - New Auditor for Special Review
- Mar 16 Appointed - Russell Reynolds for President Search
- Mar 22 Appointed - Ernest & Young as Auditor for Special Review
- Appointed - Child Welfare League of America (CWLA) to Conduct Program Review
- Mar 24 Interviewed Acting President and Deputy Acting President Candidates
- Mar 24 Board of Directors Meeting approved candidates
- Mar 26 Appointed Acting President Announced/Deputy Acting President Announced

Mar 26 Board of Directors Meeting

Mar 27 Announced - New Board Members -
William Aramony, President United Way of
America
William J. Flynn - CEO Mutual of America



Oversight Committee Directory

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AT&T
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8161 " "
Chairman of the Board
James D. Wolfensohn, Inc.
599 Lexington Avenue
New York, New York 10022

COVENANT HOUSE OVERSIGHT COMMITTEE

June 8, 1990

BRIEFING MATERIAL

- * MEETING AGENDA

- * FINANCIAL AND MANAGEMENT CONTROLS
 - Outline of Ernst & Young Audit

- * COMPENSATION REVIEW
 - Richard Shinn's report and supporting documentation

- * CHILD WELFARE LEAGUE OF AMERICA STUDY
 - Description of CWL's planned review of New York programs serving of adolescents and young adults

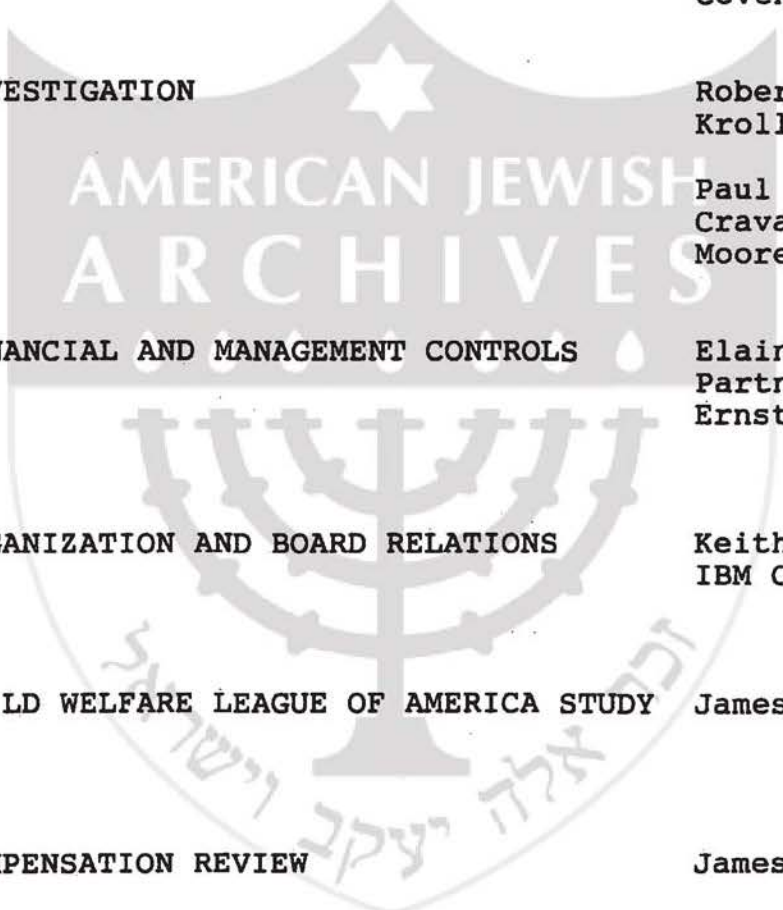
- * ORGANIZATION AND BOARD RELATIONS
 - Organization Issues outline
 - Organization charts
 - Board to Board relations assessment by Bruce Henry

COVENANT HOUSE OVERSIGHT COMMITTEE

June 8, 1990

8:00 AM

AGENDA

- 
- * COVENANT HOUSE OVERVIEW James Harnett
COO
Covenant House
 - * INVESTIGATION Robert McGuire
Kroll Associates
Paul Saunders, Esq.
Cravath, Swain & Moore
 - * FINANCIAL AND MANAGEMENT CONTROLS Elaine Allen
Partner
Ernst & Young
 - * ORGANIZATION AND BOARD RELATIONS Keith Austin
IBM Corp.
 - * CHILD WELFARE LEAGUE OF AMERICA STUDY James Harnett
 - * COMPENSATION REVIEW James Harnett
 - * COMMITTEE SESSION William M. Ellinghaus
Ralph A. Pfeiffer, Jr.

June Hartnett - March 14 Ed Shaw

Ernst & Young acct.

Elaine Allen,
De Bourde & Touche

- controls adequate?
- compliance testing

March 20 - Management compensation

- pay Assoc schedules
- minimum to mid-pt.
- look at severance (Shapiro)
- bonus not good idea - discontinue
- compensation all execs
- 1,700 Employees / 1,600 volunteers

> Ralph Pfeffer - board to board

- Search Comm - for Pres.

- acting Pres - 9 mos

James Burke, ~~John~~ ^{John}

~~Constance~~ ^{John} ~~more~~

Joan Goney

with James Murray

Ralph Pfeffer, Chair
+ 5 Bd members

Board members -

Bill

- United Way

Bill Flynn - not at time -

COVENANT HOUSE
SUMMARY OF PROGRAMS

Covenant House is a child care agency that offers shelter, crisis intervention and other vital services to homeless and abandoned youth under the age of 21. It is the only agency that serves youths over age 17, at which time they are too old for child programs and too young for adult shelters. Covenant House provides shelters and programs in the following locations:

Canada

United States

New York

Fort Lauderdale

New Orleans

Houston

Los Angeles

Anchorage

Additionally outreach programs operate in Newark, Trenton, and Atlantic City, New Jersey.

Mexico

Guatemala

Honduras

Panama

Following is a summary of primary programs:

Crisis Center

An open-intake policy assures free, immediate shelter, food, clothing, counseling and medical attention to runaway/homeless youth under age 21. In fiscal 1989, over 25,000 youths received care through Covenant House Crisis Centers throughout the nation.

Outreach

Each night outreach vans meet runaway/homeless youth on their own turf to provide counseling, food and referrals. These vans enable Covenant House to contact youths who otherwise might not seek services on their own.

Mother and Child Program

Our separate residential program for homeless dolescent pregnant and parenting women and their children teaches parenting skills and assists them in obtaining education, employment and permanent housing.

Aftercare Services

Aftercare offers support services to youngsters after they leave our care. Services include medical care, counseling, referrals, life skills training, and home visits.

Long-Term Transitional Residence

Our long term residential program, Rights of Passage, enables homeless adolescents to live in a transitional program for 18 months while they further their education, embark on career track jobs, and learn life skills necessary for independent living. Each resident in the program has a mentor to provide support and direction.

Special Needs Unit

A facility for homeless youth with AIDS and AIDS-related illnesses offers short-term care focusing on educational and vocational training.

Substance Abuse Intervention

We offer homeless youth with substance abuse problems a safe and therapeutic residential program in a drug free setting. They receive counseling, medical, educational, and vocational services, and are then referred to long term treatment programs.

Health Services

Our Health Services Departments provide homeless youth with primary medical care, nursing and mental health services, pediatric and adolescent services, testing and treatment for sexually transmitted diseases, OB/GYN services, and health education and counseling. They are staffed by licensed physicians and nurses as well as support technicians.

Nineline

Nineline is a toll-free runaway crisis hotline (1/800/999-9999) for adolescents and their families. It operates 24 hours-per-day, seven days-per-week. Each NINELINE representative is skilled in crisis management and counseling, and has computerized access to a database of more than 20,000 social service providers throughout the United States and Canada. Such access provides ready referral to local social services. In December, 1989 there were 140,471 calls which came from each of 50 states and the Canadian provinces.



Memo to: Ralph Pfeiffer

From: Bob McGrath *Res-M*

Re: Facts being presented to media

Date: June 6, 1990

Here are the facts we are presenting to the media about the most recent round of publicity:

-- According to District Attorney Morgenthau, there is no new investigation of Covenant House planned by his office, and this is not a reopening of the investigation closed by his office on February 28 (see attached). His office is not commenting on any possible investigations of individuals who have worked at Covenant House.

-- In early April, Covenant House staff discovered evidence of possible fraud in connection with the operation of the security force at Under 21. That information was promptly turned over to the appropriate authorities (police and Kroll Associates).

-- Stan Ford, director of security at Under 21, was laid off in early May due to budget restrictions and operational review.

-- Covenant House is encouraging Mr. Ford, and any past or present employees to cooperate fully with all investigations and reviews.

cc: Msgr. Toohy
Msgr. McDonnell
Jim Harnett
Joe Borgo



NEW YORK POST, TUESDAY, JUNE 5, 1990

Drop in donations forces Covenant to cut staff by half

By JOE NICHOLSON

Scandal-scarred Covenant House is eliminating more than half of its 420-person staff here and closing its AIDS unit. The Post has learned.

"It's very, very sad," said Covenant House spokesman Susan McLean, who confirmed 224 staff jobs were being eliminated because of declining donations. The 13 boys and girls with

AIDS or AIDS-virus infections will move to live with other runaways, McLean said.

"We certainly are not going to identify these kids as being [AIDS virus] positive when we introduce them to their roommates," she said.

"We all know AIDS transmission is not by casual contact and we will educate our kids to deal with this problem."

McLean said Covenant House has closed its Washington, D.C., branch.

She said it will also close a group home for girls on West 47th Street and a group home for boys on West 18th Street and reduce its contributions to branch shelters around the country.

McLean said the drastic cutbacks under a new \$12.9 million budget for local programs meant

Covenant House was consolidating — not collapsing.

"We have a lot of very good supporters out there. Our volunteers who come in nights and weekends are people who devote a large portion of their lives to helping these kids," she said, adding that 125,000 Americans gave to the charity last month.

"With that kind of support you are not going to evaporate."

Covenant House's problems began with allegations that its founder, Father Bruce Ritter, was involved with financial irregularities and that he had lured four male runaways into sexual relationships.

A Covenant House source said its educational and vocational programs were also being cut out.

But McLean declined to confirm the elimination of those programs.

June 5, 1990

Daily News

Covenant budget withers

By RUTH LANDA
Daily News Staff Writer

Rocked by scandal and uncertainty over future donations, Covenant House plans to slash up to half its New York staff and eliminate some services in a major "downsizing" of the troubled youth charity, a spokeswoman said yesterday.

The organization already has given 111 employees pink slips, and the number "could go as high as 224," said spokeswoman Susan McLean.

The AIDS unit of the charity's main shelter on W. 41st St., serving youngsters testing positive for the deadly HIV virus, will be eliminated, and other programs, including educational and job counseling, will be cut, McLean said.

Staffers have been laid off at Covenant House branches in Florida and New Orleans, and the new Washington, D.C., center has been closed.

'Cuts really hurt'

"It's a downsizing and reorganization. We're looking at all the programs to decide how much more efficiently they can be run," McLean said.

"It's a real belt-tightening," she added. "These cuts really hurt."

In the wake of allegations of sexual misconduct and financial irregularities involving the Rev. Bruce Ritter, Covenant House's founder, "We can't guarantee that our donations will hold firm," the spokeswoman said.

The budget for the 41st St. shelter, Under 21, already has been cut by 10%, and McLean said the charity was "confident" staff cuts "will bring us down to the level where we can be in sync with our projected donations."

More layoffs coming

Since May 25, 111 of Covenant House's 420 staffers

224 cuts at 41st St. would include 64 more layoffs and the remainder would be lost through attrition.

Covenant House provides shelter to about 270 youngsters in New York nightly. The allegations earlier this year triggered a drop in donations, and nearly half the charity's board of directors have quit. Two priests named by Cardinal O'Connor have been running the charity while a new director is sought.

The third-floor AIDS unit, currently housing 13 youngsters, will be discontinued, and those kids will be "given beds on other floors," McLean said. "Most of them are not ill," he noted. "They're out job hunting or they're going to school."

The mother-child program, serving teenage mothers and their children, will be "preserved intact" but may be moved from its 52d St. location to 41st St., she said.

"Direct services to kids should not be affected," McLean said.

She said the "open intake" policy, under which no homeless teen is ever turned away, will be continued. But, she added, "we may not be able to service kids who come back four, five, 10 times — the recidivists."

A Covenant House source told the Daily News that employees were "particularly stunned that critical services like our educational and vocational counseling are being eliminated. . . . It looks like the dream is being shattered."

Covenant House Cuts

Troubled charity lays off half its staff

By Michael Powell

The budget crisis has fallen on Covenant House, chopping the staff at the charity's Times Square headquarters nearly in half.

Programs for teenage mothers and HIV-infected youths are likely to be eliminated, with nearly half of the 420 employees losing their jobs. The youths will be returned with the main youth population at the 41st Street center.

The cuts, enacted at a series of recent board meetings, come as no surprise. Covenant House officials had spoken of massive layoffs in April unless they could stop the fiscal bleeding.

"The thinking is that it makes more sense to make

the cuts now than to have to cut half-way through a fiscal year," said spokesman George Wirt.

Nonetheless, the cuts come as a crippling blow for teenagers and young adults who seek refuge at the center, say social workers. Few of the Covenant House programs, including its mainstay, Under 21 — which shelters and aids 220 street youngsters each night — are duplicated in the city.

For instance, 200 of the city's 299 beds for children in crisis are at Covenant House. As Margo Hirsch, executive director of the Empire State Coalition, which represents social service agencies for youth in the state, noted last month: "It's Covenant House of

Please see COVENANT on Page 29.

Big Layoffs At Covenant House

COVENANT from Page 3

the street."

As well, programs for HIV-infected teenagers, and the teenage mother program, are unique in the city. These children and young adults often encounter harassment and alienation when placed in Covenant House's general admittance halls, say social workers.

Covenant House's fiscal problems are rooted in five months of turmoil. Beginning with allegations of sexual misconduct against its founder, the Rev. Bruce Ritter, the charity's sorrows soon multiplied to include charges of fiscal malfeasance, favoritism, sexual misdoings and violence and intimidation at the various centers.

COVENANT HOUSE FACING NEW MORGY PROBE

By MIKE PEARL,
PAUL SCHWARTZMAN,
and JOE NICHOLSON

Manhattan District Attorney Robert Morgenthau is about to open a new criminal investigation into scandal-ridden Covenant House, sources told The Post last night.

The sources said it would be a new investigation — rather than a reopening of Morgenthau's investigation of Covenant House founder Father Bruce Ritter.

Morgenthau dropped a criminal investigation of Ritter on Feb. 28 after spending three months looking into allegations the priest was involved in financial and sexual improprieties.

Ritter, who has maintained his innocence, resigned as president of the shelter for runaways in the wake of the allegations.

News of a new investiga-

tion comes one day after Covenant House announced it was cutting its staff by half due to a drop in donations.

Sources said the new investigation will involve financial irregularities, not possible sexual infractions. They provided no other details.

Former city police commissioner Robert McGuire has been conducting an investigation of all alleged improprieties on behalf of the shelter's board.

Sources said it was believed that information McGuire turned up may have led Morgenthau to consider a new investigation.

McGuire could not be reached for comment.

It could not be learned

Partygoers admit they miss Ritter

There were the usual tuxedos and fine evening dresses, salmon appetizers and long-stemmed roses at each table.

But those who attended Covenant House's annual fund-raising dinner at the Waldorf-Astoria last night said the affair was decidedly different from those held in past years.

"We miss Bruce," said John Bong, a retired businessman who has contributed thousands of dollars to Covenant House.

"This was an organization founded by a genius, and when the genius goes, the troops have to make it happen."

"If we go out of business, no one is going to help these kids."

Paul Schwartzman

whether the allegations involved Ritter personally or other officials at the shelter.

Gerald McKelvey, a Morgenthau spokesman, declined comment.

Stanley Arkin, Ritter's lawyer, told The Post he knew

nothing of a new investigation, adding "I don't have any idea what they would have on him, and I think I know the case pretty well."

James Harnett, Ritter's former right-hand man and still the charity's chief operating

officer, told The Post: "If the district attorney is investigating, we will fully cooperate. We are absolutely committed to that."

Harnett spoke at Covenant House's annual black-tie fund-raising dinner at the Waldorf-Astoria last night.

Morgenthau's Feb. 28 statement indicated there were unresolved questions about Kevin Kite, the first of four male runaways who accused Ritter of luring them into sexual relationships.

"Although some questionable financial transactions were discovered during the review of Kite's involvement with Covenant House, there is insufficient evidence to warrant criminal charges,"



FATHER RITTER
Quit in scandal's wake

said Morgenthau.

A source at Covenant House told The Post rumors were circulating yesterday about the new investigation.

"I understand they're reopening an investigation of Father Bruce. It's not a shock here anymore, staff has gone through a period of stress and distrust," said the source.

Covenant House To Cut Programs And Employees

Suffering Sharp Drop in Charitable Donations

By ALESSANDRA STANLEY

Suffering from a sharp drop in charitable contributions, Covenant House has decided to reduce its 460-member staff in New York by almost half and to cut several programs, including two group homes for youths, an outreach van and a residential unit for teenagers infected with the AIDS virus.

Contributions, which provide 90 percent of the foundation's income, dropped 12.5 percent after allegations concerning sexual misconduct and fiscal irregularities by the founder of Covenant House, the Rev. Bruce Ritter, became public in December.

Under the cuts, the Mothers With Children residence will also be closed. Several dozen women, most of them homeless or runaways, and their children are to be relocated to spare beds at the largest Covenant House residential center, Rites of Passage. A dozen teenagers in the AIDS program will also move to other dormitories, some of which already house teenagers infected with the AIDS virus.

To Inspire Contributors

The executive director of Covenant House in New York, Joseph B. Borgo, said he hoped that news of the cuts would inspire leery donors to begin contributing again. "It might help bring into focus for people just what the effect of this continuing controversy is likely to be for the kids we serve," Mr. Borgo said. "We have attempted to minimize the direct impact on the kids. But obviously they will be affected."

WNBC-TV reported yesterday that the Manhattan District Attorney's office had recently opened another investigation into Covenant House. An earlier inquiry was dropped on the ground that there was insufficient evidence for criminal prosecution. A spokesman for the prosecutor would not comment on the report. Others close to the situation at Covenant House said a criminal matter unrelated to the accusations against Father Ritter had been brought to the attention of law-enforcement officials. That investigation is believed to be about a relatively minor case in court.

Covenant House operates a national system of shelters and crisis centers for 25,000 runaway and homeless young people. It determined in April that its budget for the 1991 fiscal year would have to be reduced, more than \$10 million from \$87 million in 1990.

The centers to be closed, housing a total of 20 teenagers, are on West 47th and 15th Streets.



Covenant House facing \$12M budget cut

By CHARLES M. SENNOTT and RUTH LANDA

With Covenant House facing a \$12 million budget cut and the loss of half its staff, social workers fear thousands of teens at the scandal-plagued refuge for runaways could be thrown back to the streets.

"There is really no place else for them to go. Covenant House is just about all New York City has," said Margo Hirschen, director of the Empire State Coalition, which represents social service agencies for youths state-

wide. "There is going to be a vacuum and no one is sure how it will be filled."

Covenant House officials — who said Monday that 224 employees, nearly half the staff, will be lost in the coming fiscal year through layoffs and attrition — yesterday

projected the charity's budget for next year at \$75 million, down \$12 million from last year.

The drop is due to a loss in donations since allegations surfaced of sexual and fiscal misconduct by Covenant House founder, the Rev.

Bruce Ritter, earlier this year. Ritter subsequently resigned.

Manhattan District Attorney Robert Morgenthau dropped a criminal probe of him last February, despite evidence of "violations of law" at Covenant House.

But yesterday, a law enforcement source told the Daily News, the Manhattan district attorney's racket bureau is checking a tip about another potential crime at the troubled charity.

The nature of the new inquiry could not be determined, but the source said it is not a probe of the institution itself.

Spokesmen for both Morgenthau and Covenant House declined comment.

Susan Mulgrave, head of the city's services for teenage runaways under the Department of Youth Services, said the cuts at Covenant House — which cares for 10,000 youths a year in the city and 25,000 nationwide — could put a "great strain" on city and other services for youths.

Young adults hardest hit

Impact of the cuts will be most severe for people between 18 and 21 years old, because city, state and federally funded programs only serve those under 18.

The programs to be cut or consolidated with the main "Under 21" program include the 13-bed AIDS unit, the 50-bed unit for teenage mothers with children, and an educational and vocational training center.

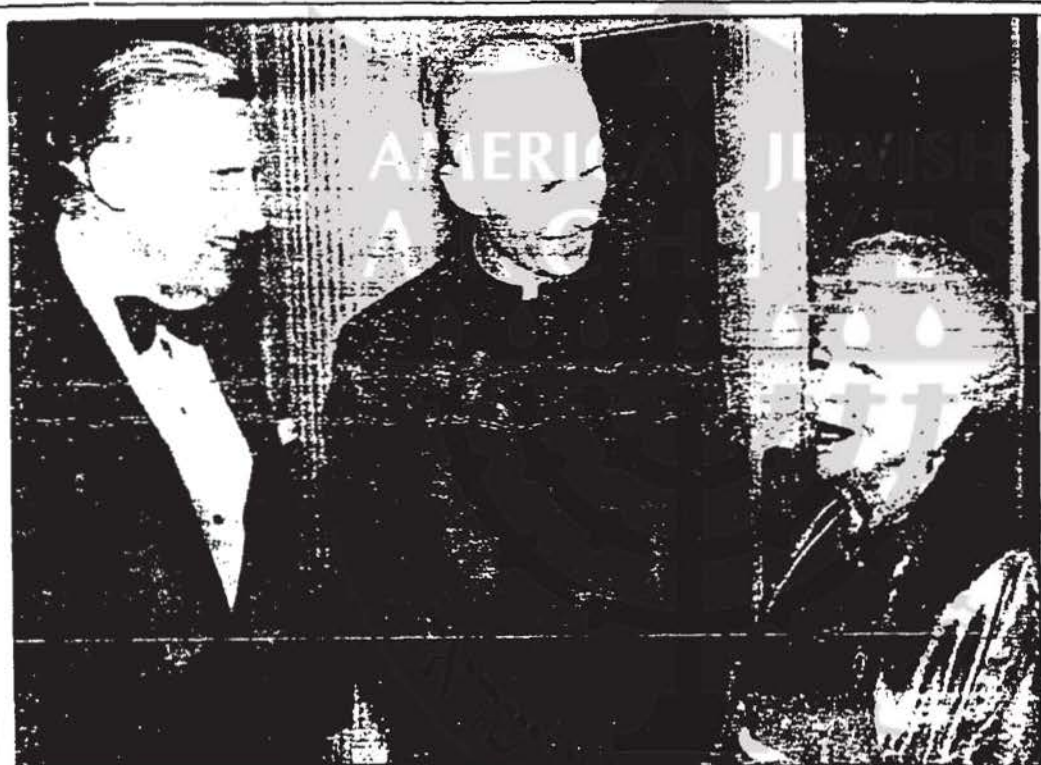
Covenant House spokesman Robert McGrath said the charity would have to continue being open to all youths. But minutes of a May 21 Under 21 meeting suggest a "bed and breakfast program" under which "our traditional recidivist population ... will be reduced as we initiate a more structured and efficient program."

One Covenant House source, who spoke on the condition of anonymity, said, "They are setting up a kind of holding pattern for the kids, and will eventually try to turn them over to other programs, which are nonexistent, or be forced to turn them away."

The source added that, until the layoffs, the charity would violate state regulations requiring a 10-to-1 ratio of youths to adult supervisors if it attempted to continue accepting the current number of youths nightly.

Covenant House's Under 21 program houses 220 youths a night, while city-funded crisis programs provide only 90 beds.

— Staff writer Kevin McCov contributed to this account.



DRIVE GOES ON: Ralph Pfeiffer, chairman of Covenant House board of directors (l.), Msgr. William Toohy, co-president of Covenant House, and actress Helen Hayes attended last night's fund-raiser at the Waldorf-Astoria. BELL STAMM JR., DAILY NEWS

Passing plate to collect 1M

By CHARLES M. SENNOTT and RUTH LANDA

Daily News Staff Writers

Covenant House officials, expressing confidence about the troubled charity's future, said they raised \$1 million at a black-tie dinner last night — but without the man who has been its top money-raiser for years, the Rev. Bruce Ritter.

Some 900 people paid \$500 to \$1,000 a plate — and some as much as \$50,000 — to attend the affair at the Waldorf-Astoria, while the scandal-tinged charity makes deep cuts to offset a possible drop in donations.

Yet Covenant House board chairman Ralph Pfeiffer told the contributors, "I'm confident about the future. We will succeed in carrying out the shared vision of our founder, Father Bruce Ritter."

"It was his belief," Pfeiffer said, "that every child should have a safe place away from the horrors of the streets. We will continue to offer that to anyone who comes to our door."

Pfeiffer said that former Police Commissioner Robert McGuire would soon complete his three-month investigation of sexual and financial improprieties at Covenant House.

Effective letters

But some worried about the charity's future without Ritter, a dynamic fund-raiser, who resigned this year as allegations of sexual and financial impropriety surfaced.

Ritter was "among the best and most effective fund-raisers in the country," said James Harnett, the institution's chief operating officer.

He noted that Ritter's most effective methods included telling the runaway youths' heart-wrenching stories in a monthly newsletter sent to 300,000 people.

Ritter also traveled throughout the country, making impassioned pleas and collecting donations.

Now, Covenant House is searching for a new director. A deal Ritter was negotiating with Walt Disney studios to produce a film of his life story — "a modern 'Boys' Town,'" said Harnett — has fallen through.

"All of us got involved because of Father Ritter," said John Boag, who has attended Covenant House fund-raisers for 10 years. "We were all shocked — but ... we're going to stick with it."

"These kids are still here. Nobody else is helping them."

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Covenant House's 2d-job cops probed

CHARLES M. SENNOTT
News Staff Writer

The Manhattan district attorney's office is probing allegations that city cops moonlighted as guards at Covenant House under aliases to dodge taxes and evade departmental rules, sources told the Daily News yesterday. They also are investigating leads that other employees at

the troubled refuge for runaway teens stole office equipment, including a computer, and clothing and donations stored at the organization's 41st St. headquarters, the sources said.

The Police Department internal affairs division confirmed it has launched a probe into possible violations of departmental rules and

state tax laws concerning moonlighting.

"We are conducting an investigation with the district attorney's office," said Chief Daniel Sullivan. "We don't know the extent of what was going on, and it is unclear how many officers were involved."

Six cops

At least six police officers employed as guards, paid as much as \$20,000, were removed from their positions, a Covenant House source said. The source added that several of the officers may have been using aliases and false Social Security numbers at their second jobs.

It was unclear, he said, whether they had done so to avoid departmental regulations or evade taxes on their moonlighting salaries, or whether the police officers had participated in the thefts.

Former Police Commissioner Robert McGuire — named by Covenant House to conduct an internal probe into allegations of sexual and financial misconduct by its founder, the Rev. Bruce Ritter — declined to elaborate on the new allegations.

McGuire said, "Covenant House received information that pertained to certain alleged improprieties in the se-

curity department, and we turned that information over to the district attorney's office."

DA dropped probe

On Feb. 28, a day after Ritter announced his resignation, the district attorney's rackets bureau dropped a

SAVING COVENANT HOUSE

Suggestions on how it can be done. An editorial.

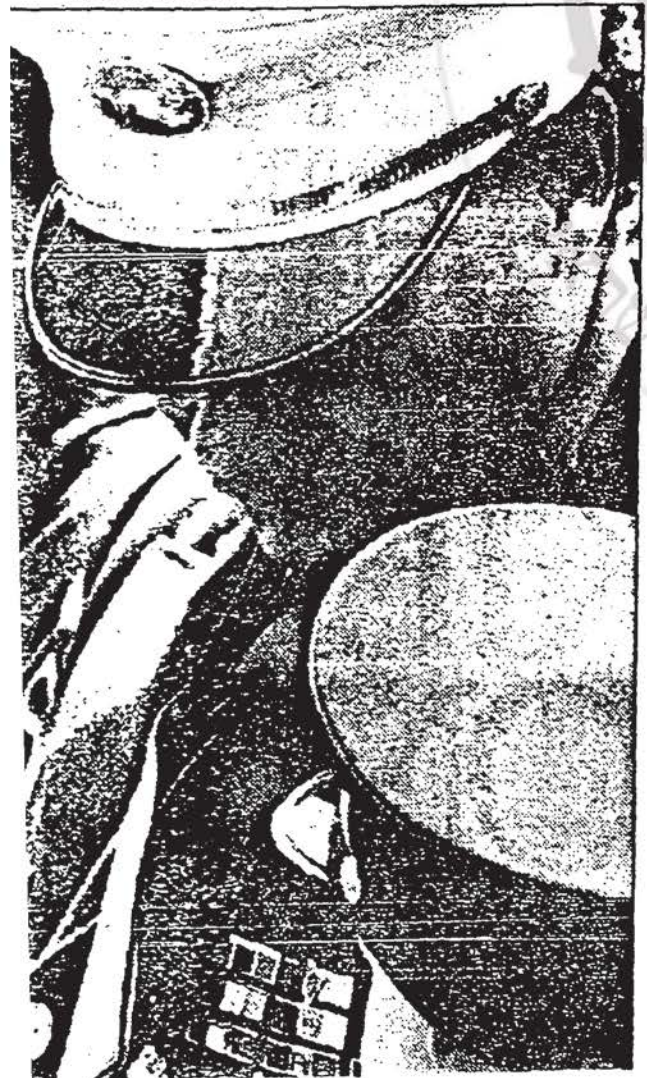
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fraud investigation into allegations that Ritter had been using Covenant House funds to pay for an affair with a 26-year-old former male prostitute.

In a statement yesterday, District Attorney Robert Morgenthau said, "We have not reopened that (fraud) investigation, nor are any new investigations under way in this office concerning the operations of Covenant House itself. ... We will not comment on reports of an investigation by us into a series of past petty thefts that have occurred at Covenant House."

Chief Sullivan said it is not against departmental guidelines for a police officer to moonlight, but department officials must be notified of the place and schedule of the moonlighting positions.

Nice going, dad



TA does shift on strollers: 'Let 'em roll'

[end]

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Put Covenant House back in order

WHAT'S GOING TO HAPPEN to the street kids if Covenant House doesn't get back on track? Covenant House has become an indispensable provider of social services in New York City. If it disappears, there's no government agency, no private foundation, no religious group that can step in and quickly replace it. No one else has the money or skilled personnel to get the job done.

It would be wrong to allow scandal to end the good works of Covenant House. Through even the darkest days, everyone associated with Covenant House said the organization was more than Father Bruce Ritter. It's time to prove it. *Covenant House can be saved.* Here are a few suggestions:

■ The new board of directors must restore confidence. Directors must get out and tell the Covenant House story aggressively. Covenant House has saved countless young lives. The public must be reminded of that. Directors shouldn't try to cover up allegations of past financial and legal improprieties. Better to face up to them and discuss steps to prevent future trouble.

■ Revive the aggressive fund-raising campaign. Go on television, use direct mail. Top staff and directors should consider traveling the country to make personal pleas.

■ Don't allow budget cuts, program eliminations and layoffs to be knockout blows. Instead, use this time to reassess how Covenant House delivers its services. It's an opportunity for change. Large facilities that warehouse lots of teens for short periods of time may not be the best way to help troubled youth. Smaller facilities, where more kids could stay longer and receive intensive counseling, might work better and be cheaper.

■ Don't wait for a new director to get Covenant House back on an even keel. The overhaul has to start now. A recovering Covenant House would be a more attractive place for a strong leader than an organization that seems to be on its last legs.

Covenant House directors need to roll up their sleeves and get busy. Many young lives are depending on them.

The gospel truth

In an 8-to-1 ruling, the Supreme Court has upheld the 1984 federal Equal Access Act, which says that a public school student group cannot be discriminated against on the basis of religion, philosophy or political ideology. If other extracurricular activities — art clubs, drama clubs, etc. — are held on school property after hours, a school cannot ban a Bible club that also wants to meet there. Just as it could not permit the Young Democrats to meet but ban the Young Republicans or the Young Whigs. This is equal access. This is common-sense logic. This does not imply the school's official endorsement of ideology or religion. And this does not violate the constitutional ban against establishment of religion by the government.

The crucial distinction: The law simply permits access. It does not and will not force any student to participate in religious instruction or be politically indoctrinated.

Granted, the door is now open to certain problems. What happens if the Young Devil-Worshippers or the Young Ku Klux Klan wants to meet? Schools will have to draw up strict guidelines. In this litigious society, there's no doubt that eventually some club that fails to meet school rules will go running off to court. But such challenges can and should be dealt with on a case-by-case basis.

In the meantime, the opportunity again exists for school kids to have access to moral guidance. Prayer in classrooms is ta-

NEW COVENANT FLAP: COPS 'NO-\$HOW'

By MIKE PEARL
and JOE NICHOLSON

The scandals at Covenant House took a new twist yesterday with the disclosure of alleged fraud involving off-duty cops being paid for no-show jobs at the shelter, sources told The Post.

Manhattan District Attorney Robert Morgenthau was given information on the alleged scam after it was discovered by red-faced Covenant House officials, said sources.

The sources said DA investigators were looking at information about the alleged no-show jobs and must decide whether to open a formal investigation.

"In early April, Covenant House officials discovered evidence of possible fraud in connection with the security force," said shelter spokesman Robert McGrath, who added that Covenant's security chief Stan Ford was "laid off."

"He [Ford] was laid off in early May due to both budget considerations and operational review," said McGrath, who declined to explain further.

Ford was a close aide of shelter founder Father Bruce Ritter and a widely respected former police officer and Vietnam veteran, sources said.

Sources said Ritter has employed off-duty cops for as long as 10 years and that the cops — when they showed up for work — made the shelter much safer.

Ritter often boasted in speeches and fund-raising appeals that he employed armed off-duty cops, sources said.

The sources said Ritter also

Morgenthau was given information on the alleged scam ... by red-faced Covenant officials.

was motivated to hire off-duty cops as a way to defuse the resentment by cops who sometimes felt the priest interfered with their efforts to question or arrest runaways.

Stanley Arkin, Ritter's lawyer, told The Post that he did not know about the new allegations.

"Absolutely not, absolutely not," Arkin said of the possibility that Ritter set up or tolerated the arrangement as a way to maintain friendly relationships with police at nearby precincts.

"Nobody has suggested that, and that's simply not so," said

Arkin.

Gerald McKelvey, a Morgenthau spokesman, would not comment on the charges.

Sources said the alleged scam may have gone on for a number of years and involved many thousands of dollars.

On Feb. 28, Morgenthau dropped a three-month investigation of Ritter, who had been accused of financial and sexual improprieties.

In other developments, Morgenthau issued a statement on another investigation he is conducting involving thefts — which sources said involved office furniture and computers — at Covenant House.

Morgenthau said he was not planning to reopen the investigation he dropped on Feb. 28.

"Nor are any new investigations under way in this office concerning the operations of Covenant House itself," said Morgenthau, drawing a distinction between the charity and its current or former staffers.

Wm. Ellinghaus

Tom Edwards - Genevieve - AT&T

Jui Harrell - Paul Sanders, Charlotte, Swaine & Moore

Cyrus Vance

Paul Volcker

Robert
Ralph McGuire

Arthur Slattery - (McGuire) - former FBI

MT

Ralph Pfeiffer

Wm Ellinghaus



- Cardinal O'Connor
- was independent,
- 3 meetings?

finders - counsel 3 who.

- Supervisory role - investigation

- board, wholly independent -
- legal technicality - oversight comm.
are members of public
- child care - confidentiality

Ernest A. Young - auditors

Bob Abrams - Atty Gen. - checks Bureau
we'll fix it

McGuire - procedural / Substantive

- 3, 4 ind.

- Altony Gul - not for profit, charitable
org side

- Sexual harassment - Ritter, other staff

Coars-

trust

- District Attorney - [1969-70] 6 young
people
4 men, 2 women - in Lower East Side

- John Mallon - (Village Voice) - early '70s,
sexually abused by Ritter, till '86

(public anti-gay, private gay)

Bassile, Gary - 1973 (14 yrs old.)

- Ritter denied all charges - all street
kids, hustlers

- Greg - 70s - Ritter sexual advances
rejected.

- Kevin Kite - interviewed by DA / call boy
Tapes
N. Orleans

- forged baptismal certificate

- cash stipend / computer (clothes
reported in press)

- Kite - 2 tape records with Ritter
request of District Atty. office

st Atty - consenting adult, statute of limitations

Ritter - therapeutic discussion/
personal relationship.

Westfield College - former pres - Call-bar
charges, Walecki

1985 - travelled to Covenant House,
(to ~~state~~ charges not had credence)

- gay staff / Counselors -

70% gay - Counselors -

Exec - porno movies

Guatemala

volunteer doctor

murder suicide - Shawn Russell
(see relat w Grunsellor)

FINANCIALS - Trust / \$96,000 salary
\$60,000 in trust, benefiting Franine

- loans to Jim McGuire

- deception & instruction to receive trust
trust to benefit Covenant House &
other relig org.

Atty Gen involved trust

absolute confidentiality



The New York Times/Ruby Washington

to Own Fifth Avenue

Astoria, Queens, marched yesterday on Fifth Avenue.

Cardinal's Choice to Fill In As Covenant House Leader

By WOLFGANG SAXON

The head of legal affairs for the Roman Catholic Archdiocese of New York was named the acting president of Covenant House, and an Upper West Side pastor was made his deputy, John Cardinal O'Connor announced yesterday.

On Friday, the Cardinal recommended that Msgr. William J. Toohy, the director of the Archdiocesan Office of Legal Affairs, be made acting president and chief executive, and that Msgr. Timothy A. McDonnell, the pastor of Holy Trinity Church, be made acting deputy president. The Covenant House board approved the appointments Saturday.

Both men will serve for nine months at most while a search committee looks for a permanent successor to the Rev. Bruce Ritter. Father Ritter, the organization's founder, resigned on Feb. 27 amid allegations of financial and sexual indiscretions. He has denied the accusations, which are being investigated by civil and church authorities.

Monsignors Toohy and McDonnell will report directly to the board of Covenant House, the organization said.

Not Paid By Covenant House

Cardinal O'Connor, who announced the choices at Sunday Mass, said that each man will continue to draw his priestly stipend of \$6,000 a year. Covenant House, he said, will pay them no salary.

He said they will have the help of unpaid diocesan consultants with experience in child welfare, crisis intervention, drug and alcohol problems and other fields.

"It's hardly a disadvantage for a man to have a legal background to go there," Cardinal O'Connor told reporters later. Both Monsignor Toohy and Monsignor McDonnell will be relieved of their current duties in the Archdiocese while they administer Covenant House, the Archdiocese said.

The Cardinal said the two priests had been assured of complete access to all Covenant House records.

Experience in Puerto Rico

Monsignor Toohy, a 59-year-old native of Newton, Mass., who is fluent in Spanish and French, graduated cum laude from Harvard in 1951 and from Harvard Law School in 1954. His assignments have included Catholic University in Ponce, Puerto Rico, social research director for Catholic Charities and member of the Board of Arbitration, Archdiocesan Conciliators.

He is a member of the City Bar Association in New York and became director of archdiocesan legal affairs in 1988.

Monsignor McDonnell, 52, was born in Manhattan. Ordained in 1963, he has been pastor of Holy Trinity Church in Manhattan since 1984. He is Episcopal Vicar of West Manhattan, a diocesan post.

Ralph A. Pfeiffer Jr., the chairman of the Covenant House board, called the two appointees "outstanding clergymen who will provide valuable leadership to Covenant House during this very difficult period of transition." He thanked Cardinal O'Connor for his "gracious assistance and prompt response to our need."

May 6, 1990

Robert Cardany
Chief Financial Officer
Covenant House
346 West 17th Street
New York, New York 10011-5002

Dear Mr. Cardany:

In response to your request for a status report on our study of the internal accounting control systems of Covenant House, please note the following:

CHANGE IN SCOPE

Our engagement letter, dated March 29, 1990, indicated that we would report, in accordance with the provisions of Statement of Auditing Standards No. 30, on the internal accounting control system, taken as a whole, of Covenant House Corporate, Under 21, 268 West 44th, Testamentum and Rights of Passage as of April 30, 1990. However, due to what we have learned about the individual corporate structures and accounting systems of the entities, we will study and report on the individual systems of internal accounting control for:

- Covenant House Corporate,
- Testamentum and subsidiaries, and
- Under 21.

Our study of Under 21 will include Rights of Passage as we understand that through March 31, 1990 - Rights of Passage was accounted for as a program of Under 21 within its accounting system. However, neither Under 21's for-profit subsidiary nor Covenant House, New Jersey will be included in our study.

As a result of our work to date, we have found it necessary to expand the scope of our procedures to include transactions processed through the petty cash system (Under 21) and review the system of initiating and monitoring investments (Covenant House Corporate).

Robert Cardany
May 6, 1990
Page 2

We will test compliance with the control procedures during the period March 1, 1990 through March 30, 1990 instead of the April 2, 1990 through April 30, 1990. This change enables us to expedite the study, as the accounting period of March 1990 has been closed recently for all entities.

PROGRESS TO DATE

Our reviews of Covenant House Corporate and Under 21 commenced on April 23, 1990 and April 30, 1990, respectively. To date we have interviewed members of the finance, personnel, payroll and donation mail departments and have begun documenting the system design and flow of transactions and identifying the relevant controls in the significant accounting applications. Our review of Testamentum and subsidiaries will commence on May 7, 1990.

Our progress on the study has been hampered by two factors:

- 1) the limited internal control workpapers provided by your auditors did not provide the level and extent of documentation of the internal control systems (i.e. narratives and/or flow charts of the systems transaction flow and relevant controls) necessary for us to perform this engagement. Accordingly, we have had to prepare such documentation;
- 2) the absence of several key members of the finance department of Covenant House Corporate, due to illness and other personal factors, has made our interviewing process less efficient than planned.

NEXT STEPS

At Covenant House Corporate and Under 21, we expect to complete our interviews with your management and staff members and systems documentation within several days. We will then prepare a preliminary evaluation of the effectiveness of the internal control procedures and environment and proceed with tests of compliance with control procedures. We expect to commence the tests of compliance at all three entities within the next week to ten days and to draft our preliminary findings on Covenant House Corporate and Under 21 by May 25, 1990 and by May 31, 1990 for Testamentum and subsidiaries. Should significant findings come to our attention, we will communicate them to you immediately.

Ernst & Young

Robert Cardany
May 6, 1990
Page 3

Should you have any question or comments concerning our study, please do not hesitate to call me (212-773-5010) or Janet Daly at (212-773-5006).

Very truly yours,



Elaine Allen



Ernst & Young

Metropolitan Office
277 Park Avenue
New York, New York 10172
Telephone: (212) 407-1500
Telex: TRT-17787A

March 29, 1990

L. Edward Shaw, Jr., Esq.
Board of Directors
Covenant House
346 West 17th Street
New York, New York 10011-5002

Dear Mr. Shaw:

We appreciated the opportunity to meet with you to discuss the nature of our services to be provided to Covenant House. We understand the importance of this engagement to Covenant House and are prepared to provide services responsive to your needs.

Elaine Allen and Myron Strober will be responsible for coordinating and planning this special engagement for Covenant House. It will be the responsibility of Elaine Allen to ensure that you receive good service and she will be assisted by appropriate staff.

Our assignment will be to report, in accordance with the provisions of Statement of Auditing Standards No. 30, on the internal accounting control system, taken as a whole, of Covenant House Corporate, Under 21, 268 West 44th, Testamentum and Rights of Passage as of a specified date. The objective of our engagement will be to determine if material weaknesses in the internal accounting control system exist. If no material weaknesses are identified, our report will be unqualified. If material weaknesses are identified, our report will be qualified and will describe each material weakness, whether it results from the absence of control procedures or the degree of compliance with them, and the general nature of the potential errors and irregularities that may occur as a result of the weakness. See Exhibit I for illustrative reports we would contemplate issuing depending on whether material weaknesses are present or not. Because of the heightened sensitivity to Covenant House of their system of internal accounting control, our report would include, as an appendix, all weaknesses, coming to our attention, resulting from the absence of controls or the lack of compliance with those controls, whether or not we deem them to be material.

Ernst & Young

L. Edward Shaw, Jr., Esq.
March 29, 1990
Page 2

In order for us to express an opinion on Covenant House's system of internal accounting control, taken as a whole, we must perform the following: (a) plan the scope of the engagement (including consideration of the control environment), (b) review the design of the system, (c) test compliance with prescribed procedures, and (d) evaluate the results of the review and tests. In planning the scope of this engagement, it will be necessary for you to authorize Deloitte & Touche, your auditors, to respond to our inquiries. In addition, we would expect assess to Deloitte & Touche's workpapers covering their understanding of the system of internal accounting control (narratives, flowcharts and microcomputer spreadsheets of the control objectives and procedures of Covenant House) prepared during the course of their 1989 audit. The significant internal accounting control systems we will review include:

- cash receipts
- cash disbursements
- payroll

Once having planned the scope of our procedures, including our evaluation of the overall control environment, we will then proceed to the next phase of our procedures. During this phase, we will review the design of the system by considering the following:

- the flow of transactions through the significant applications of the accounting system;
- identifying and understanding the relevant control procedures used by Covenant House to prevent and detect errors in each significant application of the accounting system.

After having identified the significant control procedures and considered the effects of the control environment on those control procedures, a preliminary evaluation will be made by us of the effectiveness of those procedures.

During the last phase of our work, we test compliance with the control objectives and procedures designed by management. The nature and extent of our tests of compliance will vary with the nature of the control being tested. We will test compliance with control procedures during the period April 2, 1990 through approximately April 30, 1990 (the expected date of our report).

Ernst & Young

L. Edward Shaw, Jr., Esq.
March 29, 1990
Page 3

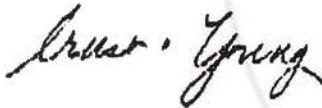
During the course of our engagement, items outside the scope of this engagement may come to our attention that may be of interest to you. We will discuss those items with you and determine, at that time, the scope of any additional work.

Our fees will be based on hours worked by the various levels of personnel, at rates applicable to each, billed monthly on this basis plus out-of-pocket expenses. In consideration of your not-for-profit status, we will discount our standard rates by 20%.

Should you request Ernst & Young to provide information to third parties or should Ernst & Young be required by subpoena or other legal process to provide information, you agree to reimburse us for our actual costs and time incurred, at our standard rates discounted by 20%.

If these arrangements are acceptable, please sign one copy of this letter and return it to us.

Very truly yours,



Covenant House

By: _____

Title: _____

Date: _____

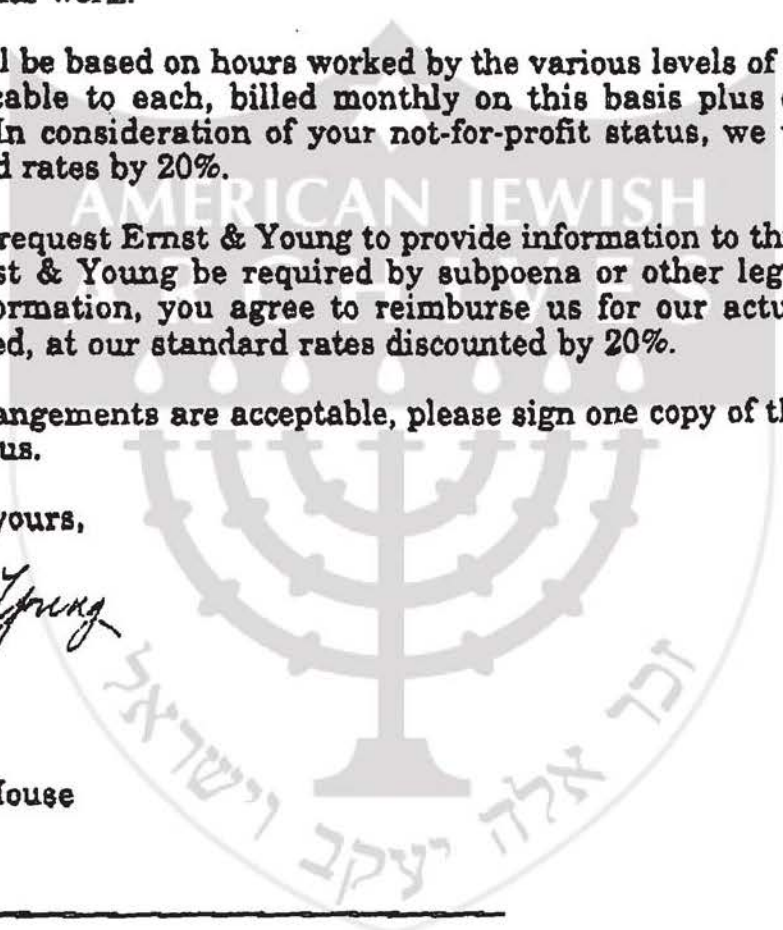


Exhibit I

The Board of Directors
Covenant House

We have made a study and evaluation of the system of internal accounting control of Covenant House and its subsidiaries (Under 21, Rights of Passage, 268 West 44th Corp. and Testamentum) in effect at April 30, 1990.

The management of Covenant House is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

In our opinion, the system of internal accounting control of Covenant House and subsidiaries in effect at April 30, 1990, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial statements.

(If we become aware of material weaknesses in the internal accounting control system, the preceding paragraph would be modified as follows:

Our study and evaluation disclosed the following conditions in the system of internal accounting control of Covenant House in effect at April 30, 1990, which, in our opinion, result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period.

In this section, we would describe the material weaknesses and state whether they result from the absence of control procedures or the degree of compliance with them. We would also describe the general nature of the potential errors or irregularities that may occur as a result of the weaknesses.)

The Board of Directors
Covenant House
Page 2

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.



**COMPENSATION REVIEW
PROCESS**

In March, 1990 the Covenant House Board of Directors asked Mr. Richard Shinn, Executive Vice Chairman, New York Stock Exchange to review salary compensation and implementation at Covenant House. Mr. Shinn was also asked to review the Employee Benefit Plans currently available to staff.

The following information was sent to Mr. Shinn on March 7, 1990.

1. Organization charts for Covenant House Corporate, Rights of Passage and Under 21.
2. A list of the employees earning \$30,000 or more as reported on Form 990 for Fiscal Year ending June 30, 1989.
3. A list of employees and their respective salaries for those earning \$30,000 or more as of March 5, 1990.

In addition, Mr. Shinn was sent the following compensation survey information used by Covenant House to determine salary guidelines:

1. Hay Management Consultants Table II: salary recommendations implemented by Covenant House on January 1, 1989.
2. Top Nonprofit Executives Salaries Published in NonProfit Times October, 1989
3. Child Welfare League of America Salary Study for 1989
4. Compensation in Nonprofit Organizations, 1988 Study
5. Management Compensation and Benefits Practices in Not-For-Profit Organizations in New York City, 1989
6. Local Child Care Agencies Salary Comparison for Top Program Positions, 1990
7. Phoenix House and New York State Salaries,, 1989

On March 14, 1990 a meeting was held with Mr. Richard Shinn, Ralph Pfeiffer, Jim Harnett and Diana Silcox. The purpose of this meeting was to review the material sent Mr. Shinn and ask for his review and guidance on appropriate severance for John Kells, Greg Loken and Fr. Ritter.

On April 11, 1990 a meeting was held with Mr. Shinn and Ralph Pfeiffer, Msgr. Toohey, Msgr. McDonnell, Paul Saunders, Jim Harnett and Diana Silcox.

Mr. Shinn presented his letter dated April 10, 1990 to the group and discussed his review of Covenant House's compensation arrangements, severance allowance policy and employee benefit plans.

Paul Saunders presented his letter dated April 11, 1990. Mr. Saunders had been asked to provide legal advice regarding whether Covenant House could provide severance pay and/or a pension to Fr. Ritter.

The following are enclosed for your review:

- Appendix A - April 10, 1990 letter to Ralph Pfeiffer from Richard Shinn
- Appendix B - April 11, 1990 letter to Ralph Pfeiffer from Paul Saunders, Cravath, Swaine & Moore
- Appendix C - March 12, 1990 letter to Mr. Shinn requesting his review of severance
- Appendix D - March 26, 1990 letter to Mr. Shinn providing him with pension benefit estimate from Mutual of America and survey on severance policy within non-profit agencies

11 Wall Street
New York, NY 10005
212 656 5190

Richard R. Shinn
Executive Vice Chairman

April 10, 1990

NYSE

New York
Stock Exchange, Inc.

Mr. Ralph A. Pfeiffer, Jr.
Chairman
Covenant House
346 West 17th Street
New York, New York 10011-5002

Dear Ralph:

Following up on our recent discussion I have undertaken, with the assistance of my Human Resources associates, to review

- a. the salary compensation arrangements and their implementation for Covenant House;
- b. Severance Allowance Policy; and
- c. Employee Benefit Plan's currently available.

Management Compensation

In developing a salary structure, the management of Covenant House has been very thorough and detailed in its analysis. They have followed closely the position evaluations and salary structure proposed by a well known compensation consultant, who is highly regarded by many major corporations. Further, they have reviewed salaries paid by a number of comparable non-profit organizations with the salary scales at Covenant House, and they are consistent.

The actual salaries paid fall at or below the mid-point of the individual position evaluations, with the exception of Mr. Kells, whose salary is very close to the maximum established for the position. I understand this salary determination reflects the exceptional personal performance and contributions he has made to Covenant House as an individual.

Stated simply, the approach and implementation of management has been professional and reflects fair compensation. When viewed both externally and internally, it is consistent among various job positions. This conclusion is based on the salary data and accompanying material that you sent me.

Mr. Ralph A. Pfeiffer, Jr.
Covenant House
April 10, 1990
Page 2

Severance Allowance Policy

As requested, I have researched a number of Severance Allowance Plans adopted by both business and non-profit organizations. Most companies, as you know, have formal guidelines for severance pay, which typically come into play when there is a reorganization, layoff or a requested termination. Most often, the conditions of severance pay provide that no such payments are made if the individual is terminated for "cause" as may be defined.

The typical plan provides one week's severance pay for each year of service to a maximum of either 13 or 26 weeks. However, where there are major lay-offs or reduction in staff, many companies provide severance pay for as long as a year. It is common practice to provide payment be made either on a lump-sum basis or spread out over a period of time. If the latter is elected, benefits would continue during that period.

Employee Insurance Benefits

I have also reviewed the booklets outlining the Employee Benefit Plans made available by Covenant House. The individual benefits provided, and the level of benefits, are generally in line with benefit plans offered by organizations having approximately the same number of employees as Covenant House.

I understand that Covenant House assumes the entire cost of the Dental Plan, Life Insurance, Accidental Death and Dismemberment, Long-term Disability and the Retirement Plan. I also understand that for the Hospital Plan, Surgical Procedures and Major Medical Benefits, Covenant House pays the entire cost of the employee coverage, but employees pay 40% of the cost for dependent coverage. This amount will increase 10% a year until the employee pays the full cost for dependents. I am informed that the Supplemental Life Insurance Plan is an employee pay-all basis, with the employee contributing \$0.19 per month per \$1,000 of Life Insurance. The typical Supplemental Life Insurance Plan, however, varies with employee contributions by age so as to more fairly reflect mortality expectations.

I further understand that, with respect to New York Hospital Surgical, Major Medical Benefits are also available through either designated HMOs or HIP.

Covenant House has wisely adopted a pre-admission and concurrent review program. This is most important in light of continuing, substantial increases in cost of medical care experienced over the last several years.

Mr. Ralph A. Pfeiffer, Jr.
Covenant House
April 10, 1990
Page 3

I was pleased to hear that the Employee Benefit Plan structure and distribution of cost, by the employee and dependent, are under continuous review. In light of the increasing costs of such benefits (which are largely uncontrollable) organizations, with which I am acquainted, have not only undertaken cost containment programs, such as you have adopted, but are also educating their employees as to the serious implications of rising benefit costs.

I look forward to visiting with you tomorrow afternoon when we can discuss these matters in more detail.

Warmest personal regards.

Sincerely,



Richard R. Shinn
Executive Vice Chairman



CRAVATH, SWAINE & MOORE

ALLEN F. MAULSBY
STEWART R. BROSS, JR.
JOHN R. HUPPER
SAMUEL C. BUTLER
BENJAMIN F. CRANE
JOHN F. HUNT
GEORGE J. GILLESPIE, III
THOMAS D. BARR
MELVIN L. BEDRICK
GEORGE T. LOWY
ROBERT ROSENMAN
ALAN J. HRUSKA
JOHN E. YOUNG
JAMES M. EDWARDS
DAVID G. ORMSBY
DAVID L. SCHWARTZ
RICHARD J. MIEGEL
FREDERICK A.O. SCHWARZ, JR.
CHRISTINE BESHAR
ROBERT S. RIFKIND
DAVID BOIES
DAVID O. BROWNWOOD
PAUL H. DODYK
RICHARD M. ALLEN
THOMAS R. BROME
ROBERT D. JOFFE
ROBERT F. MULLEN
HERBERT L. CAMP
ALLEN FINKELSON
RONALD S. ROLFE
JOSEPH R. SANIO
PAUL C. SAUNDERS

MARTIN L. SENZEL
DOUGLAS D. BROADWATER
JOSEPH A. MULLINS
MAX R. SHULMAN
STUART W. GOLD
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JOHN E. BEERBOWER
EVAN R. CHESLER
PATRICIA GEOGHEGAN
D. COLLIER KIRKHAM
MICHAEL L. SCHLER
DANIEL P. CUNNINGHAM
KRIS F. HEINZELMAN
B. ROBBINS KIESSLING
ROGER D. TURNER
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RORY O. MILLSON
NEIL P. WESTREICH
FRANCIS P. BARRON
RICHARD W. CLARY
WILLIAM P. ROGERS, JR.
JAMES D. COOPER
STEPHEN L. GORDON
ROBERT A. KINDLER
DANIEL L. MOSLEY
GREGORY M. SHAW
PETER S. WILSON
JAMES C. VARDELL, III
ROBERT H. BARON
KEVIN J. GREHAM
W. CLAYTON JOHNSON
STEPHEN S. MADSEN

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AMERICAN JEWISH
ARCHIVES

April 11, 1990

Covenant House

Dear Ralph:

You have asked for our advice regarding whether Covenant House can provide severance pay and a pension to Father Bruce Ritter in respect of his services to Covenant House.

Father Ritter was the President and Chief Executive Officer of Covenant House until he resigned on February 27, 1990. At that time, he also resigned as President and Chief Executive Officer of all subsidiaries and related corporations of Covenant House. Father Ritter was the sole member of Covenant House until he resigned as a member as of March 19, 1990. We understand that Father Ritter was not covered by any pension plan of Covenant House nor did Covenant House pay or agree to pay any amounts constituting a pension at any time during his tenure. We also understand that Covenant House frequently provides modest severance pay to employees upon termination of employment.

Under Section 515 of the New York Not-For-Profit Corporation Law ("NPCL"), Covenant House is prohibited from paying dividends or distributing any part of its income or profit to its members, directors or officers. In addition, under Section 516 of the NPCL, Covenant House is prohibited from distributing cash or property to a former member. Notwithstanding the foregoing, Covenant House is permitted

under the NPCL to pay compensation in a reasonable amount to members, directors or officers for services rendered.

We believe that severance pay which is reasonable in relation to both the years of service provided and the level of compensation paid in respect of such services would constitute compensation which a corporation may pay under the NPCL. In view of the foregoing, we believe that Covenant House may provide a severance payment to Father Ritter as long as such payment is duly authorized and the amount is consistent with Covenant House's past practice and policies and is reasonable in relation to the years of service rendered and compensation paid in respect thereof.

Unlike severance pay which is generally paid pursuant to an informal policy of the employer, a pension is typically arranged during the term of employment, either pursuant to an adopted plan for categories of employees or pursuant to an individually negotiated agreement. Because Father Ritter was not covered by any Covenant House pension plan nor was any separate agreement made during his tenure to provide him a pension, we believe any payment of a pension could be categorized as an improper distribution of assets and would therefore be prohibited under the NPCL.

We note that some organizations enter into consulting agreements with former officers pursuant to which pension and other benefits are provided. Although Covenant House has the corporate power to do so, entering into such an agreement with Father Ritter would contradict representations that have been made to the New York Attorney General and to others to the effect that Father Ritter currently holds no position and has no affiliation with Covenant House. Such an arrangement would also conflict with the understanding between Covenant House and John Cardinal O'Connor pursuant to which Covenant House retained Monsignors William J. Toohy and Timothy A. McDonnell as Acting President and Chief Executive Officer and Deputy Acting President and Deputy Chief Executive Officer, respectively.

Please contact us if you have any questions concerning the foregoing.

Sincerely,



Paul C. Saunders

Mr. Ralph A. Pfeiffer, Jr.,
Chairman,
Covenant House,
346 West 17th Street,
New York, N.Y. 10011

159A





COVENANT HOUSE

346 WEST 77TH STREET
NEW YORK, N.Y. 10019-6002
(212) 727-4082

JAMES J. HARNETT
EXECUTIVE VICE PRESIDENT
CHIEF OPERATING OFFICER

March 12, 1990

Mr. Richard Shinn
Executive Vice Chairman
New York Stock Exchange
121 Wall Street, Room 604
New York, New York 10005

Dear Mr. Shinn:

At its meeting on March 7, 1990, the Board of Directors asked me to seek your guidance concerning the resignations and severance for Mr. John F. Kells (Senior Vice President for Communications) and Gregory A. Loken, Esq. (Executive Director/Institute for Youth Advocacy).

The proposed severance is enclosed. Mr. Kells was employed from September, 1984 to March, 1990, a total of five (5) years. Mr. Loken worked for Covenant House from March, 1980 to March, 1990, a total of ten (10) years.

The Board also seeks your guidance regarding an appropriate severance for Father Ritter.

Thank you for your assistance with this matter.

Sincerely,


James J. Harnett
Executive Vice President/
Chief Executive Officer

JJH/pgw

cc: Ralph A. Pfeiffer, Jr.
Denis P. Coleman, Jr.

MEMORANDUM

DATE: March 7, 1990

TO: COVENANT HOUSE BOARD OF DIRECTORS

FROM: James J. Harnett

RE: Severance for Loken and Kells

The Board of Directors agreed upon the following severance packages for Gregory Loken and John Kells in its meeting of March 3, 1990:

- Gregory Loken:**
- > Three (3) months' severance pay while looking for other employment.
 - > One (1) month's vacation pay.
 - > Legal fees for Covenant House related activities.
 - > Two (2) months' extension of severance pay if other employment is not found.
 - > Consideration concerning materials collected by the Institute for Youth Advocacy.
 - > Statement from Board of Directors that action was not a result of his care for Adam.
- John Kells:**
- > Payment of medical bills.
 - > Two (2) months' severance pay while looking for other employment.
 - > One (1) month's vacation pay.
 - > Legal fees for Covenant House related activities.
 - > Two (2) months' extension of severance pay if other employment is not found.
 - > Past due retroactive increase.



COVENANT HOUSE

346 WEST 17 STREET · NEW YORK, NY 10011-5002
(212) 727-4173/4172

HUMAN RESOURCES
DEPARTMENT

March 26, 1990

Mr. Richard Shinn
Executive Vice President
New York Stock Exchange
11 Wall Street, Room 604
New York, NY 10005

Dear Mr. Shinn:

Enclosed please find a copy of the hypothetical pension estimate for Fr. Ritter from Mutual of America and a copy of the survey we just did on the Severance Policy within Non-Profit agencies.

If there's any questions on this, please let me know.

Sincerely,

Diana Silcox
Vice President
Human Resources

DS/je

cc: Jim Harnett
Ralph Pfeiffer

NON-PROFIT AGENCIES SEVERANCE POLICY

	American Cancer	NY Foundling Hospital	Catholic Relief	Save The Children	Boys Town
Do You provide severance ? ----- Do you have a policy ?	For the most part, when needed severance packages are developed as situation warrants. No policy exists for providing severance.	Only had need to do it once when closing down agency owned boarding homes. Handled it as follows:	Only provided it once when head-quarters moved from New York to Baltimore	Yes.	Yes - Only had to provide it several years ago when they had a mass lay off. Staff are given a 30 day notice of lay off.
Is package different for Mgt. vs. Line Staff ?	The following was used when they moved from NY to Georgia. Only w/ respect to outplacement services	No. Certain that Mgt. would not be dealt w/ differently	No. Since he has been w/ Catholic Relief only one Sr. Mgt has left. There was no severance offered to them	No.	No.
What does your severance package provide ?	Maximum of 26 wks. Payment can be either lump sum or spread out.	1 wk. severance pay for each year of service. To a maximum of three weeks.	1 wk. severance for each year of service to a max. of 26 wks.	1 wk. severance for each year of service. No maximum. *Minimum 2 wks.	1 wks. pay for each year of service up to a max. of 13 wks. (Min. of 2 wks. of severance)
Are benefits continued ?	If severance pay is spread out, benefits continue during that time. If not, benefits cease.	Benefits were continued during the three week period.	No. Staff had to pay for their own benefits. Max 6 months.	Benefits were continued for two months.	All benefits are continued during the severance period & time is counted towards pension vesting.
Do you provide outplacement services ?	Yes. Sr. - Mid Mgt. are provided professional outplacement services. Lower levels attended seminars on preparing resumes, interviewing & other related topics	Yes. Coordinated by the Foundling Personnel Dept. Assisted staff w/ getting jobs in other agencies. Some staff got positions in other Foundling Programs.	Professional outplacement services were provided to all staff who did not relocate.	*Some staff were offered early retirement. They used excessive funds in the pension acct. to do this. Of 35 staff offered, 23 accepted.	Outplacement done on informal basis. However for Senior Mgt. they would arrange for professional services.

Private

Oversight Committee
Covenant House

May 30, 1990

Mr. Ellinghaus:
Fr. Hesburgh:
Rabbi Tannenbaum:
Mr. Vance:
Mr. Volcker:

AMERICAN JEWISH
ARCHIVES

Attached is a pre-meeting Briefing Binder which includes, as appropriate, material relevant to the Committee's June 8th meeting. The meeting agenda is also included.

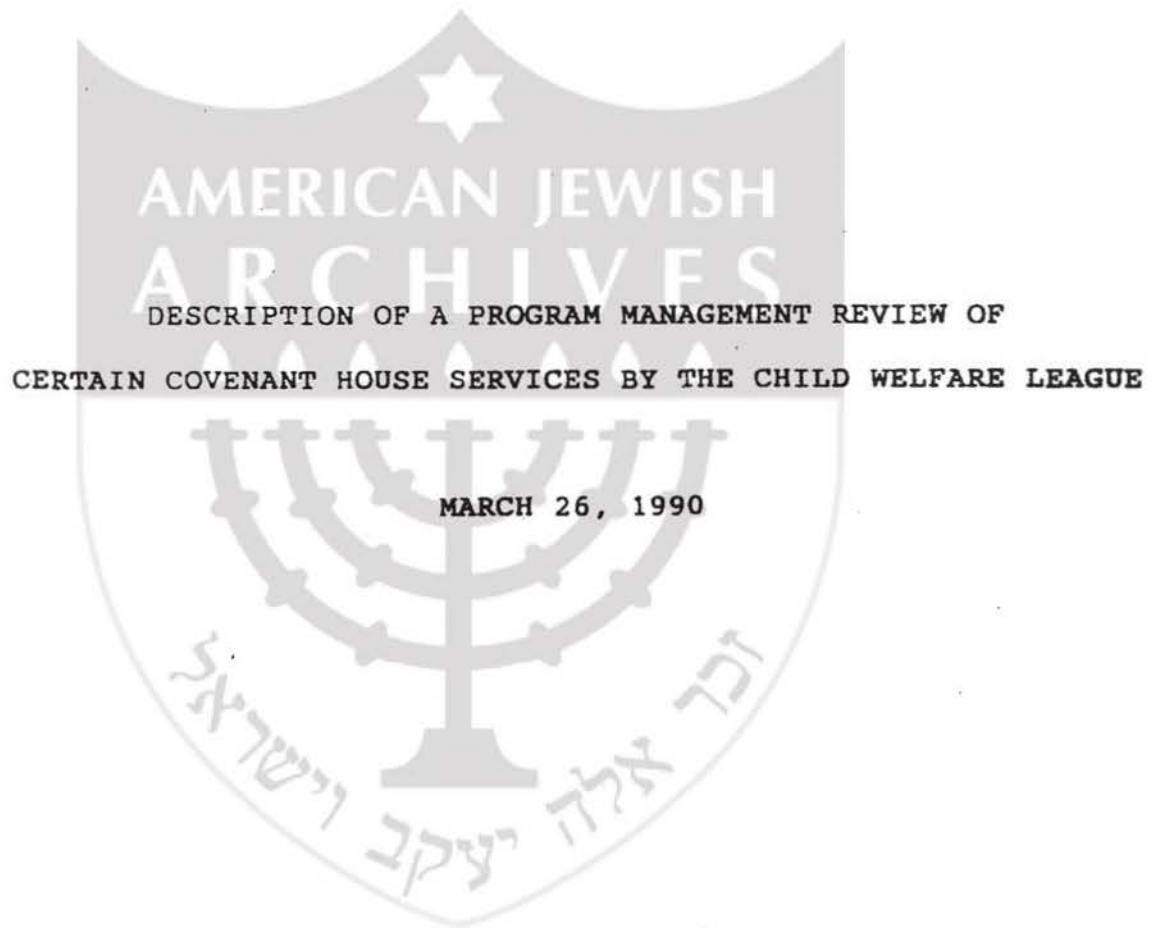
Additionally, Ralph Pfeiffer will update the Committee on the search for a permanent CEO as well as several new additions to the Board of Directors.

The meeting will convene at 8:00 A.M. and conclude by 10:00 A.M. If I can be of any additional assistance, please do not hesitate to call me.

Tom Edwards

Thomas J. Edwards
Staff to the Committee
(718) 330-9800

CHILD WELFARE LEAGUE OF AMERICA, INC.



COVENANT HOUSE
PROGRAM MANAGEMENT REVIEW

1. INTRODUCTION

Covenant House has requested the Child Welfare League of American to conduct an independent review of certain of its programs in New York City serving adolescents and young adults. It wishes to have these programs examined both in terms of its original mission statement and against recognized and appropriate standards of care. In addition to this analysis Covenant House also wishes recommendations on how to further strengthen the programs it has created to serve the needs of young people.

Established in 1920 on recommendations of the first White House Conference on Children, the Child Welfare League of America, with offices in Washington, D.C., is a federation of nearly 600 public and voluntary child welfare agencies. CWLA is internationally recognized for establishing standards that guide child welfare practice. These standards represent goals for program management and practice and are used by agencies to evaluate and revise their operations, policies, and procedures as necessary.

More than 125,000 professionals work at CWLA member agencies throughout North America. They serve two million children and youths, and their families, each year. Many of these member agencies, of which Covenant House is one, request assistance and consultation from policy and practice issues to assure the

highest quality services possible. It is in this spirit which Covenant House has requested assistance from the Child Welfare League.

The Child Welfare League has agreed to conduct this review and to prepare a written report, with recommendations, which will address those current and future program management and service issues which directly affect children. The evaluation will be limited to those programs and immediate issues surrounding the provision of direct care to children. More specifically, the review will examine Crisis Shelter Programs, the heart of Covenant House services, and the relationship of the Crisis Shelter to such Covenant House programs as its Rites of Passage Transitional Living and its after care and "9-Line" twenty-four hour telephone counselling programs. The review is not intended and will not address in any way certain well-publicized allegations of impropriety which are being addressed through other means initiated by the Board of Directors and others.

2. THE PROGRAM REVIEW PROCESS AND METHOD

The Child Welfare League of America recognizes that Covenant House has evolved in a unique manner and that it does not easily fit within most conventional categories of group residential programs for either adults or children. Although not alone in its focus on troubled and displaced adolescents and young adults the extent to which it has emphasized its "open door" policy,

within the context of an extraordinarily high volume of client services, has created very special circumstances and challenges which will be taken into consideration. Unfortunately, there is no one set of established standards which can be relied on exclusively in reviewing Covenant House programs. Therefore the review will be conducted using a blend of standards drawn from several areas:

1. The existing policies of Covenant House.
2. Recognized standards for group and residential child care, emergency shelter, and adult residential care.
3. Selected federal, state, and city regulations.

The study team assigned by the League to this project will conduct the review in a manner designed to gather many viewpoints. The review process will be structured to assure a high level of interaction with both Board and staff representatives of Covenant House. It will provide ample opportunity for discussion, clarification, and interpretation of the observations of the team as the review proceeds. It will also involve others with an immediate interest in the work of Covenant House. The principle methods employed by the team to gather this information will include:

1. Interviews with Covenant House Board members
2. Interviews with Covenant House agency administrators both in New York City and the executive directors of its six other shelters programs in the United States and Canada.
3. Interviews with Covenant House program staff including supervisors and direct care workers.

4. Interviews with adolescent children and young adults served by Covenant House.
5. Interviews with community agencies that work with Covenant House including law enforcement, substance abuse, mental health, child welfare, probation, education, and others.
6. Review of Covenant House policies, reports, evaluations, budgets, and program data relating to direct services.
7. Review of case records of individuals served by Covenant House.
8. Comparison of Covenant House program practices and policies with appropriate recognized standards for providing services to adolescents and young adults.

3. MANAGEMENT AND PROGRAM ISSUES TO BE REVIEWED

A. Management Issues

1. Internal clarity of mission, goals, and objectives
2. Relationship of national, local, and international management structures
3. Policy formulation and management
4. Personnel management including staff qualifications and hiring and evaluation practices
5. Staff training
6. Supervision capacity and practices
7. Internal coordination between the Crisis Shelter and two other Covenant House programs in New York City--the "9-Line" Rites of Passage programs.
8. Internal accountability mechanisms and practices
9. Evaluation and planning capacity
10. Program development
11. Community relations and network
12. Case documentation practices

13. Program budgeting and allocation of resources
14. Unit costs

B. Program Issues

1. Definition of the Covenant House client target group
2. Definition of client-oriented program goals
3. Outreach practices
4. Intake procedures including the relationship to Covenant House's "9-Line" telephone counselling and information program
5. Family interaction
6. Case planning
7. Coordination of services with other agencies
8. Residential program management
9. Referral practices
10. Discharge planning and aftercare including Covenant House's Rates of Passage program
11. Management of special client populations including substance abusers, mentally ill and those with special health needs
12. Impact of the "open door" policy on program operations and alternatives for meeting priority program goals
13. Outcome status for clients

4. TIME FRAME FOR THE REVIEW

The outline below contain the main elements of the review. It will be completed in detail upon further discussion with Covenant House administrators, although the overall review will take place between April and July.

ORGANIZATION ISSUES

OPERATIONAL

- * SELECTION OF SITE EXECUTIVE DIRECTORS
- * APPRAISAL, SALARY ADMINISTRATION, ETC. OF SITE EXECUTIVE DIRECTORS
- * DEFINITION OF, AND RESPONSIBILITY FOR, PROGRAM QUALITY CONTROL, RESEARCH PAPERS, PROGRAM CONTENT.
- * DEFINITION OF, AND RESPONSIBILITY FOR, CONSISTENT PERSONNEL PRACTICES; I.E. APPRAISAL, MOVING/RELOCATION, ETC.
- * EXECUTIVE/PROFESSIONAL DEVELOPMENT AND TRAINING PROGRAMS CONTENT
- * PLANNING SYSTEMS AND BUDGETING SYSTEMS AND STANDARDS
- * FUND RAISING PROGRAMS, DISTRIBUTION AND CONTROL OF LOCAL REQUIREMENTS

GOVERNANCE

- * OWNERSHIP/CONTROL OF GEOGRAPHIC EXPANSION
 - SATELLITE EXPANSION VS. NEW BOARD & FRANCHISE
 - FUND-RAISING JURISDICTION
- * CONTROL OF LOGO, NOMENCLATURE, MISSION STATEMENT
- * APPOINTMENT OF UNIT BOARDS
- * REAL ESTATE COMMITMENTS; PURCHASE, SALE AND LEASE



RIGHTS OF PASSAGE
COVENANT HOUSE / NEW YORK

346 WEST 17TH STREET · NEW YORK, NY 10011

MEMORANDUM

BRUCE J. HENRY
EXECUTIVE DIRECTOR

TO: Jim J. Harnett
FROM: Bruce J. Henry
DATE: March 27, 1990
RE: Board to Board Relations

Following the review of reports submitted by seven Covenant House subsidiaries, these issues have emerged around the relationship of Site boards to the International Board of Directors.

Board Representation

- All of the subsidiaries with the exception of Covenant House-New Jersey request site representation on the International Board of Directors. Specific mention has been made to include sites on the various sub-committees. In general, subsidiaries have requested increased national representation on the International Board.

- Subsidiaries have suggested that the International Board of Directors appoint members and officers of the Subsidiary Boards on an annual basis.

Along these lines also comes the question of who has the authority to remove site members, as well as defining their terms of office.

- Several of the sites questioned who will have the authority to hire and/or fire their Executive Director. Will it be the responsibility of the International Board of Directors or the Site Board. What type of input, if any, will the Corporate Board have in this process? While some sites feel this issue is settled, others ask for further clarification. In general, subsidiaries agree that Executive Directors should report to the Site Board.

- Questions have emerged around overall decision making. What decisions are made by the sites and what parameters are given to those sites when making decisions.
- Subsidiaries have expressed that the Board to Board relationship be structured to give greater autonomy to site boards for legal oversight of the day to day operations.
- How should the budget development process work? Does each site have overall authorization with the Corporate Board only approving the "parent contribution"?

By-Laws

- Due to some of the legal issues that have arisen recently, many of the sites have requested that the nature of their incorporation be reviewed along with an over-all review of the language of their by-laws.

Quality Controls Issues/Program Standards

- Subsidiaries are questioning to what extent are program design standards the same across the board and to what extent are they adapted to meet the local needs of the program. While the various sites accept the "non-negotiables" such as Open Intake, concerns arise around the need for greater site autonomy. Will the sites be allowed the flexibility to meet the program standards in a manner that would best meet the local need as well? What authority will be held centrally and what decisions can be delegated to the various subsidiaries? Also there is an expressed desire for the standardization of policies and procedures required of all Covenant House subsidiaries. A suggestion has been made that the "non-negotiables" be spelled out in a contract to ensure a minimum level of program components and performance standards. Some other areas of concern are fiscal and personnel as it pertains to senior management.

Property

- Covenant House owns most property of the subsidiary programs. Sites have expressed concern that their property is often used as collateral for other Covenant House property and will this continue in the future.

Funding

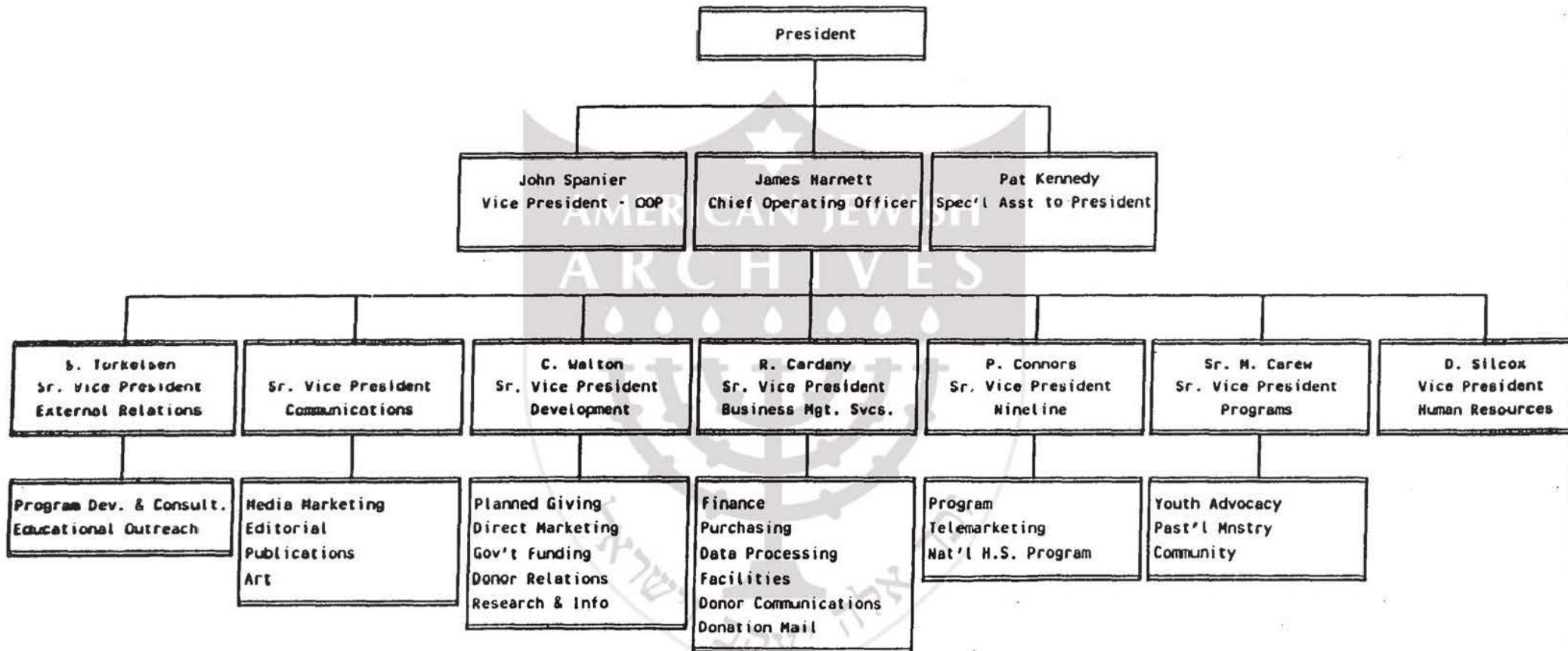
- Currently the Covenant House Corporation subsidizes all subsidiary programs. Clarification is required in the areas of Funding and Development. Will the sites become responsible for their own fundraising? If yes, will the individual site need to meet the National Charities

Information Bureau standards or will they qualify as a subsidiary of Covenant House-Corporate? Many of the subsidiaries are located in areas where it would be difficult to raise the kind of money currently being budgeted by the Corporation and are concerned about the implications should fundraising become entirely decentralized, especially around a sudden removal of the annual Corporate pledge.

Expansion

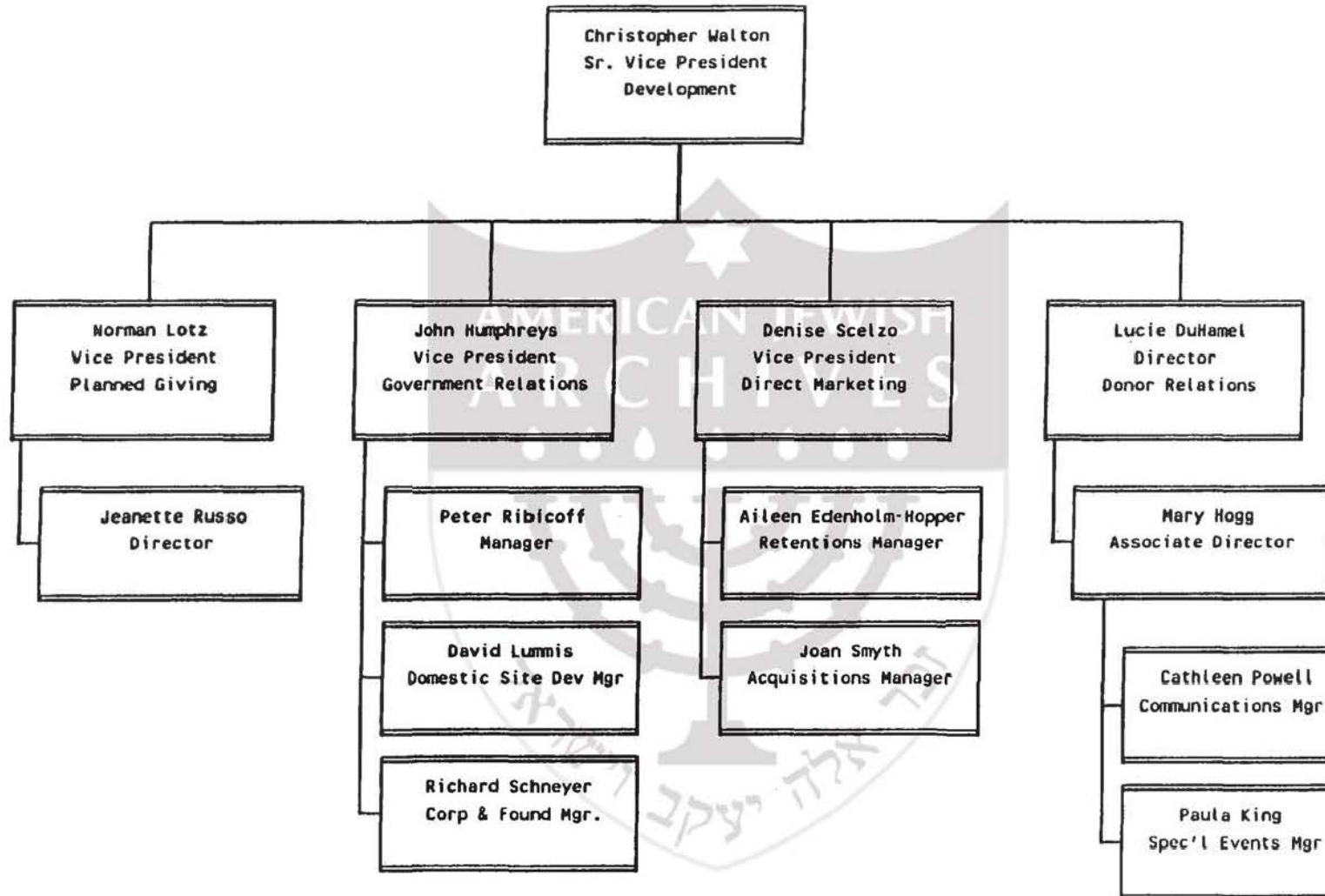
- Sites have questioned the proposed future expansion efforts as it relates to each particular location as well as to our developing programs in other geographic areas. Will programs in a state expand to reach other cities and how will these efforts be coordinated?





March 5, 1990

DEVELOPMENT



March 5, 1990

Programs

**Sr. Marita Carew
Sr. Vice President
Programs**

**Lisa Bambino
Assoc. Executive Director
Inst. For Youth Advocacy**

**Barbara Terwilliger
Business Manager
Community**

**Fr. Placid Stroik
Director
Past'l Ministry**

March 5, 1990

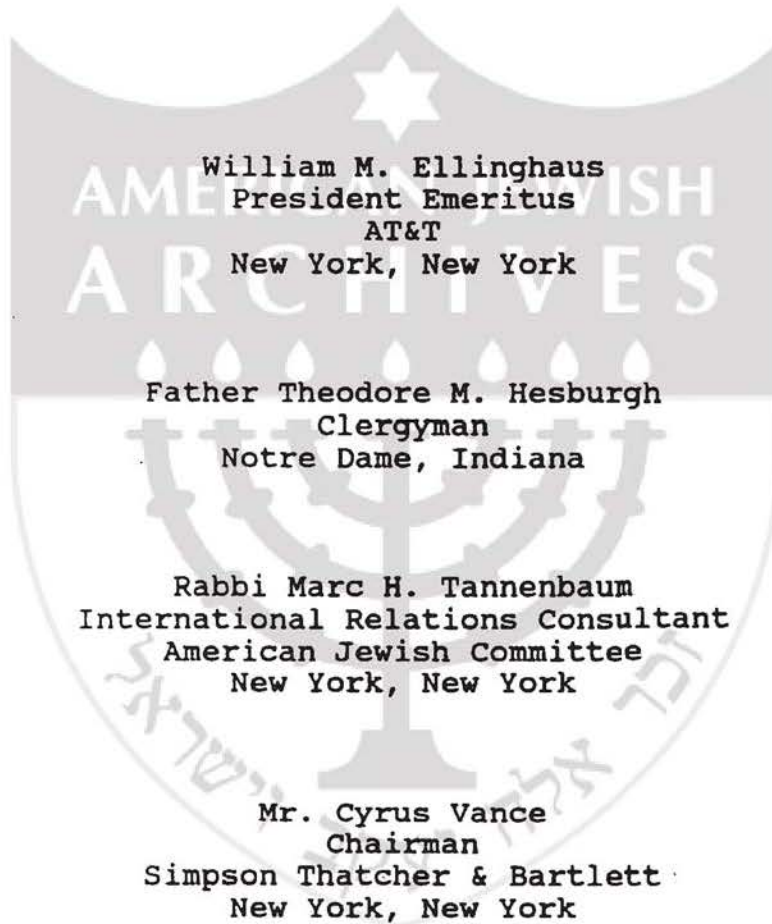
Monday, March 26, 1990

8:00 a.m.

Remarks	- Bill Ellinghaus
Oversight Committee	- Ralph A. Pfeiffer, Jr.
Legal Status	- Paul Saunders, Cravath, Swaine & Moore
Investigation Status	- Bob McGuire, Kroll Associates
Auditor Status	- Jim Harnett
Compensation Policies Review	- Jim Harnett
Board Relationships	- Jim Harnett
Search Committee	- Ralph A. Pfeiffer, Jr.



**COVENANT HOUSE
OVERSIGHT COMMITTEE**



William M. Ellinghaus
President Emeritus
AT&T
New York, New York

Father Theodore M. Hesburgh
Clergyman
Notre Dame, Indiana

Rabbi Marc H. Tannenbaum
International Relations Consultant
American Jewish Committee
New York, New York

Mr. Cyrus Vance
Chairman
Simpson Thatcher & Bartlett
New York, New York

Paul A. Volcker
Chairman
James D. Wolfensohn, Inc.

COVENANT HOUSE OVERSIGHT COMMITTEE

The Board of Directors of Covenant House has established a Special Oversight Committee, to advise and counsel the Board and to make recommendations to the Board based on the committee's evaluation of the independent reviews presently underway.

This blue-ribbon panel has been established to guide Covenant House and its Board of Directors as it goes forward without the leadership of Fr. Bruce Ritter; and to insure the resolution of its current problems. This panel will afford our staff the opportunity to immediately refocus their energy and resources on the essential mission of Covenant House: a mission that every night provides food, clothing and shelter to over 1,500 street kids in North and Central America.

The Oversight Committee will review the reports of each of the four independent consultants. The consultants will make recommendations to the Board and Oversight Committee concerning: financial and management procedures; the investigation of any and all improprieties; management compensation; and Board-to-Board relationships.

The Oversight Committee will report the result of their analyses to the Covenant House Board of Directors.

It is the goal of the Covenant House Board that the experience and wisdom of the esteemed members of the Oversight Committee will aid Covenant House in its important mission of ensuring that the highest quality of care is provided to homeless street kids.

03/03/90

Resolution Approved by the Board - March 14, 1990

The Board of Directors of Covenant House hereby instructs its General Counsel, Cravath, Swaine & Moore, to commence an internal investigation of any and all allegations of misconduct within the Covenant House organization, including its subsidiaries, for the purposes of furnishing legal advice to the Board. The General Counsel is authorized to retain Robert McGuire of Kroll Associates and other persons or entities as he shall from time to time deem necessary and appropriate, to conduct the investigation, reporting to the General Counsel. The Board intends to release the summary report and recommendations of the investigation both to the public and to the Special Committee of Oversight. All Covenant House employees and staff are directed to cooperate fully with the General Counsel's investigation.

POSITION DESCRIPTION

President/Chief Executive Officer

Position Concept: The Directors of the corporation shall elect a President/CEO, who shall be responsible for the general and active supervision of the business and affairs of the corporation, and its officers, agents, employees, and facilities.

Reporting: The president/CEO reports to the Board of directors and it shall be the responsibility of the President to report, as required, to the Board of Directors on the condition of the corporation.

Specific Responsibilities:

1. Develop and promulgate the spiritual values and policies, if necessary to execute the mission of the corporation.
2. Act as chief spokesman for the corporation, representing the corporation to the media, prospective donors, government agencies, staff, etc., as required.
3. Oversee, approve, and implement program content and program quality control processes within and consistent with the mission and policies established by the Board.
4. Execute and deliver in the name of the corporation all deeds, mortgages, bonds, contracts, or other instruments authorized by the board.
5. Insure that all orders and resolutions of the Board are carried into effect.
6. Develop appropriate organization structure, function and position descriptions, and management practices.
7. Establish uniform practices, controls and measurement systems to assure effective performance of the corporation.
8. Recruit and maintain professional staff and support personnel to effectively carry out the mission of the corporation.
9. Recommend for board approval officer position nominations and salary and compensation actions for key executives.
10. Approve subsidiary and functional operating and cash budgets. Recommend for board approval acquisition and disposition of real estate, significant lease and construction commitments and major capital expenditures.
11. Ensure the development of an effective system of internal accounting control including organizational arrangements with clearly defined lines of responsibility and delegation of authority. The system must provide reasonable assurance that transactions are executed in accordance with management authorization and are properly recorded. It must adequately safeguard, verify and maintain accountability of assets.

SPECIAL CONSIDERATIONS, RELATIONSHIPS & RESPONSIBILITIES

I. Investigatory Relationships

1. The Oversight Committee is responsible to insure that a thorough and impartial investigation of all aspects of Covenant House shall be conducted. The Oversight Committee is appointed by, and reports to, the Board of Directors.
2. Actual investigatory work shall be performed by Mr. McGuire, under the supervision of counsel. He has been retained by Counsel and will be compensated by the Board. He shall report to counsel and to the Board, and present findings and recommendations to both the Board and Oversight Committee.
3. The President/CEO shall cooperate and cause the Corporation to cooperate with the investigation in all respects. He shall call to the attention of the Board and Oversight Committee any issues which may arise from the conduct of the investigating parties.
4. Mr. McGuire shall periodically inform the President on the status of his investigations.

II. Fund Raising

The President is responsible for an appropriate fund raising capability and results. Such funds shall be raised on behalf of Covenant House.

III. Program Content

The President shall implement program content and policies as directed and approved by the Board.

RUSSELL REYNOLDS ASSOCIATES, INC.

A. WILLIAM OLSEN, JR.
Managing Director

200 Park Avenue
New York, NY 10166
Tel: (212) 351-2000
Fax: (212) 370-0896

March 19, 1990

PERSONAL AND CONFIDENTIAL

Mr. Ralph A. Pfeiffer, Jr.
Chairman of the Board
Covenant House
346 West 17th Street
New York, NY 10011-5002

Dear Ralph:

Malcolm MacKay, Jeff Reynolds, and I came away from our meeting with you on Friday impressed by what you are already doing to bring order out of the unexpected events that have visited Covenant House during the past few months. We are gratified that you have turned to Russell Reynolds Associates to help you in your search for a replacement for Father Bruce Ritter, an assignment to which we will bring the full strength of our organization. The work that Covenant House has been doing is too important to too many youngsters to deserve anything but the best leadership it can find.

At the end of our meeting, you asked for a letter which you could share with other members of your Board, a letter outlining procedures for the search, providing background on the individuals who would be conducting the search, providing a representative list of searches conducted for not-for-profit organizations with governance structures similar to that of Covenant House, and proposing a statement of the financial terms appropriate for this particular search.

Attached to this letter, then, is an outline of steps we would follow for this search as we do for most searches conducted by the firm. The steps do not constitute a straightjacket but rather a set of guidelines which should be adapted specifically to your own needs. Each organization

Mr. Ralph A. Pfeiffer, Jr.

Page Two

March 19, 1990

has its special requirements. Our objective is to be as responsive as we can to each client organization. At the same time, what we have outlined here has ample experience to support it and will give you some idea of the logical steps through which we would wish to move. Particularly important at the earliest possible moment would be meetings with principal members of your Board and staff who can give us the kind of view we need as we help draw up the definition of responsibilities expected of the new CEO and the definition of qualifications best suited for that position. With your help and that of Jim Harnett, I hope we can have those preliminary meetings before the next meeting of your Board and I would hope that we could have a draft specification at that time.

On behalf of Russell Reynolds, I will assume principal responsibility for this search. My primary assistant for this assignment will be Jeff Reynolds. Standing by to help where we feel we need it will be Malcolm MacKay. Available to all of us will be the full resources of the firm including associates in any of our national and international offices.

To give you and other members of your search committee and board some sense of our qualifications, I am appending to this letter brief biographical sketches for me and for Jeff. You will note that before joining Russell Reynolds Associates I had 35 years as an independent school educator, 21 of those as Headmaster of one of the leading New England college preparatory boarding schools. I know firsthand what it means to run a complicated not-for-profit institution and to work with a board of volunteer trustees. It was that very set of experiences that prompted Russ Reynolds, the founder of our firm, to ask me to join this firm eight and a half years ago to take charge of searches in the not-for-profit sector.

Since joining the firm, I have served a wide array of clients almost all incorporated not-for-profit, governed by Boards of Trustees, and administered by professional staffs responsible to those boards. Searches for those clients have been conducted by search committees composed almost entirely of individuals inexperienced in the search process itself. One of the major contributions I have made to each search is guidance for the search committee itself. With a large

Mr. Ralph A. Pfeiffer, Jr.
Page Three
March 19, 1990

search committee like the one you have described for Covenant House, this kind of guidance should prove useful. Attached to this letter is a list of some of the searches for which I have been the lead consultant. These are all searches for the Chief Executive Officer. On the list are searches conducted by others in the firm as well as by me.

I am sensitive to the special concerns you and others on your Board have regarding costs for the search. I am also realist enough to know that searches like the one we are about to undertake deserve a 100 percent effort. That means commitments of both time and resources. We could not do this search pro bono nor would it be in your best interests to have us do so.

I outlined for you during our conversations on Friday the standard financial practices of the firm. Our fees are one-third of the cash compensation paid to the successful candidate during the first year of his or her incumbency. We have a minimum fee now of In addition we ask for reimbursement for search-related expenses, primarily for communications and for travel. To cover our own expenses while the search is under way, we charge interim fees based on the estimated salary to be paid and billed in three portions payable at the end of each of the first three months. Search-related expenses are billed as they accrue. The final fee comes due at the end of the search.

Because of the special circumstances that surround this search I would like to propose a different arrangement. We would base our fee on 25 percent of the first year's cash compensation with a minimum fee of Other arrangements as outlined above would still apply. Because I dislike fractions I would suggest that interim fees be made in payments of and payable respectively at the end of each of the first three months. If the salary for the new CEO exceeds the small additional fee due would be payable at the end of the search. Statements that would be sent out each month would include requests for reimbursable search-related expenses.

RUSSELL REYNOLDS ASSOCIATES, INC.

Mr. Ralph A. Pfeiffer, Jr.
Page Four
March 19, 1990

If there is additional information you need or want, by all means let me know. Even by the time this letter arrives I suspect we may have the wheels in motion.

Sincerely,



A. William Olsen, Jr.

AWO:sl

Attachments

cc: Messrs. Malcolm MacKay
Jeffrey T. Reynolds



REPRESENTATIVE NOT-FOR-PROFIT SEARCHES

RECENTLY COMPLETED BY RRA

AFS Intercultural Programs
President & CEO

American Museum of Natural History
President

Bowdoin College
President

Goodwill Industries - Chicago
President

Henry Street Settlement
Executive Director

Illinois Wesleyan University
President

International Peace Academy
President

National Audubon Society
President

The New York Botanical Garden
President

Phillips Exeter Academy
Principal

Save the Children Federation
President & CEO

Shelter for the Homeless, Inc.
Executive Director

University Hospitals - Cleveland
President & CEO

Wesleyan University
President

THE SEARCH PROCESS

Introductory Consultation - Before beginning an assignment, we sharpen our knowledge of the client's industry, including its markets, competition and environment. In consultation with the client, we gain an understanding of the organization and the specifics of the position to be filled. Often our experience and our perspective as consultants help clients assess the demands of the position, the qualifications of the individual who can best fit it, and the client's expectations in light of the marketplace.

Position Specification - Once consensus is reached on the requirements of the position and the qualifications of the ideal candidate, we prepare a position specification for client review and approval. Without revealing the client's identity, the specification communicates the dimensions of the opportunity and is shared with prospective candidates and a select group of individuals who are in a position to recommend prospects.

Strategy and Research - We formulate the strategy most likely to provide a wide range of individuals whose qualifications appear to match the specification. We draw on previous projects, research, and contacts in the appropriate industry.

Consultation with Sources - Using these resources, we develop leads to prospective candidates who might otherwise be hard to identify, and solicit evaluation of others.

Interviewing of Prospective Candidates - We then conduct interviews with those prospects who seem best suited for the position, evaluating their qualifications, motivation, and compatibility with the client.

Candidate Letters - The candidates who emerge from the interviews as best suited to the position are introduced to the client through detailed candidate letters. These letters present facts about the candidate's current job, responsibilities, relevant experience, accomplishments, and background. We assess the individual's qualifications and personal "fit".

Interviewing of Candidates by Client - Interviews are scheduled between the client and candidates. If the search requirements so dictate, the client's identity is not revealed until this point.

Reference Checking - When the finalist candidate is decided upon and both client and candidate express interest in working together, we contact references able to comment in depth upon the candidate's leadership abilities, integrity, technical competence, achievements, and personal characteristics in order to verify and augment impressions gained during interviews.

Negotiations of Offer - During the negotiation stage, our outside perspective and recruiting experience enable us to provide recommendations to our client on the structure of a compensation package calculated to attract the finalist. By serving as intermediary, we can often work out details which may have significant bearing on the final acceptance of the offer.

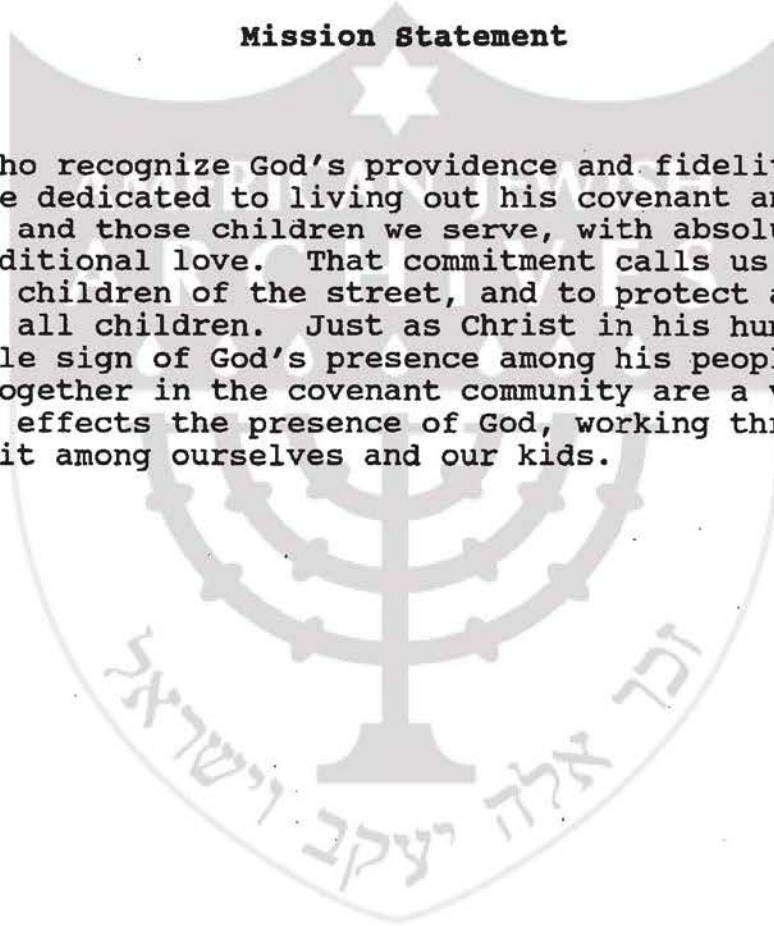
Follow-up - As a policy, over the next year we continue our dialogue with the client and successful candidate so that we can help anticipate and avert problems of adjustment.



Covenant House

Mission Statement

We who recognize God's providence and fidelity to his people are dedicated to living out his covenant among ourselves and those children we serve, with absolute respect and unconditional love. That commitment calls us to serve suffering children of the street, and to protect and safeguard all children. Just as Christ in his humanity is the visible sign of God's presence among his people, so our efforts together in the covenant community are a visible sign that effects the presence of God, working through the Holy Spirit among ourselves and our kids.



ROLE OF BOARD OF DIRECTORS

The Board of Directors is responsible for the governance of Covenant House. The Board defines the mission of the agency and establishes the overall policy and plans needed to carry out that mission.

The Board is responsible for the selection and supervision of the President and Chief Executive Officer and other officers as it sees fit, and determines their salaries and duties.

The Board reviews and approves the Annual Plan and Budget.

The Board assists in raising the funds necessary to carry out the work of Covenant House.

The Board assures that the highest quality of care in all programs is obtained.

The Board has the responsibility for making certain that internal controls and procedures are adequate to safeguard the assets of Covenant House. It must supervise the investments and allocation of funds and causes the corporation's books and accounts to be audited.

It is the Board's responsibility to keep minutes, books and records that reflect all of its acts and transactions and to maintain financial records for the corporation. In addition, the Board establishes standards for what types of contracts and actions cannot be taken by the officers without the express authorization of the Board or a Board Committee.

The Board through Covenant House is an advocate on behalf of all homeless youth.

The Board carries out its functions through the officers and the following committees of the Board: Executive, Nominating, Program, Funding and Development, External Affairs, Finance and Audit.



March 9, 1990

For more information contact:

Susan McLean (212) 727-4035

PRESS RELEASE

Ralph A. Pfeiffer, Jr., Chairman of the Board of Covenant House, announced today that the Board of Directors has retained Robert J. McGuire, former New York City Police Commissioner, now a Senior Managing Director of Kroll Associates, to conduct a thorough investigation of all charges relating to alleged misconduct in connection with Covenant House's operations. The results of this investigation will be reviewed not only by the Board of Directors but by a Special Oversight Committee. This Committee will be chaired by William M. Ellinghaus, former President of AT&T; and will include: Cyrus Roberts Vance, former Secretary of State and a partner in the law firm of Simpson, Thacher & Bartlett; Paul A. Volcker, former Chairman of the Federal Reserve Bank and currently Chairman of James D. Wolfensohn, Inc.; and Rabbi Marc H. Tannenbaum.

The summary results and recommendations of Mr. McGuire's final report will be released to the public.

In addition, the Board has appointed a Search Committee charged with identifying candidates to succeed Father Bruce Ritter in the position of President. The committee, in addition to members of the Covenant House Board, includes: Auxiliary Bishop Emerson Moore of New York; Reverend Monsignor James Murray, Executive Director of Catholic Charities; and Joan Ganz Cooney, President of Children's Television Workshop.

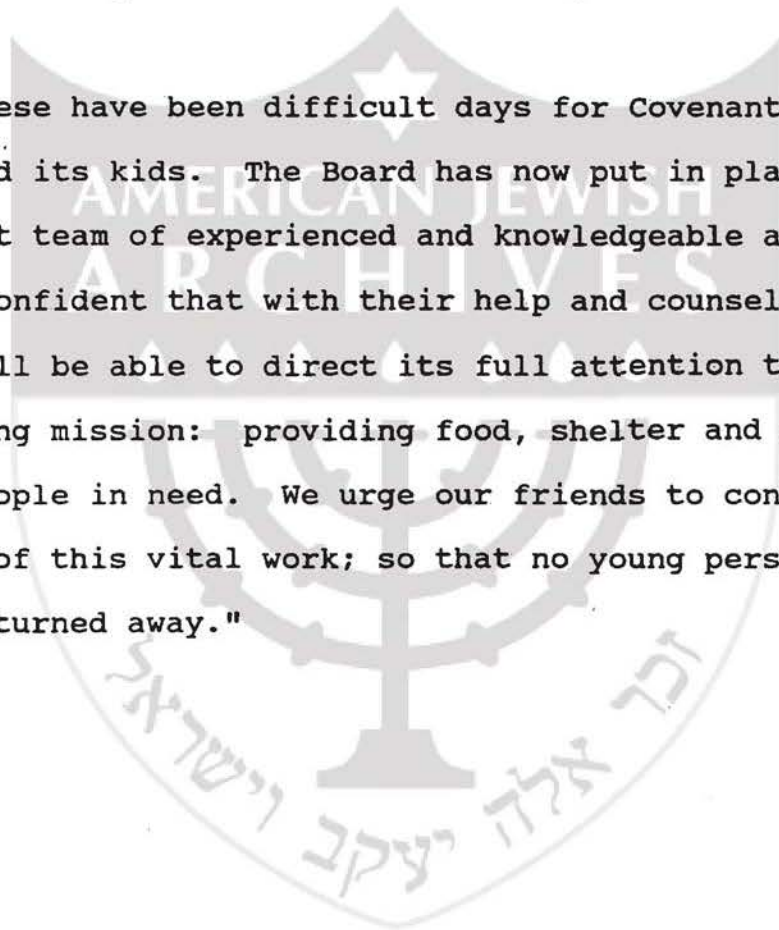
The Board also announced that the law firm of Cravath Swaine & Moore has been retained to act as General Counsel to Covenant House. The accounting firm of Deloitte & Touche has been asked to conduct a thorough review of Covenant House's financial and management policies and procedures. Also, Richard Shinn, former Chairman of Metropolitan Life Insurance Company, and currently Vice-Chair of the New York Stock Exchange has agreed to review Covenant House's compensation and benefit practices.

John Cardinal O'Connor, the Archbishop of New York, has graciously agreed to provide the Board his assistance in identifying a candidate to serve as Acting President, until the Search Committee secures a permanent replacement for Father Ritter. Upon the appointment of this Acting President, James J. Harnett will resume his position as

Chief Operating Officer. The new Acting President will report directly to the Board of Directors.

Commenting on the Board's actions, Mr. Pfeiffer said:

"These have been difficult days for Covenant House, its staff and its kids. The Board has now put in place a competent team of experienced and knowledgeable advisors, and is confident that with their help and counsel Covenant House will be able to direct its full attention to its overriding mission: providing food, shelter and care to young people in need. We urge our friends to continue their support of this vital work; so that no young person will ever be turned away."





COVENANT HOUSE

346 WEST 17TH STREET NEW YORK, N.Y. 10011-5002
(212) 727-4000 Fax: (212) 989-7586

March 8, 1990

Dear Cardinal O'Connor:

Thank you very much for meeting with Denis Coleman, Bob McCauley and me yesterday and for your expressions of confidence in and support of the ongoing work of Covenant House and its Board. I conveyed these sentiments to the Board at its meeting last night and the Board is greatly appreciative.

These have not been easy days for Covenant House. The resignation of its founder, Father Bruce Ritter, and allegations of misconduct have made it increasingly difficult to carry on, without distraction, the critical mission of Covenant House. We believe that it is essential to replace Father Ritter with a person of unquestionable stature, skill and integrity as soon as possible, but we recognize that the task of finding such a person will not be easy. For that reason we have appointed a search committee, consisting not only of members of the Board but also of Bishop Emerson Moore, Rev. Msgr. James J. Murray and Joan Ganz Cooney.

We recognize that it may take some time for us to locate such an individual and therefore we believe that it is important to put in place an interim president from outside the organization who will be able to guide it until a permanent successor for Father Ritter can be found. Given the Archdiocese's vast human resources and experience in child care, we would be grateful if you would be able to recommend a suitable candidate for this interim position. Our expectation is that the acting president would serve for no more than nine months, and, we hope, significantly less. The interim president, who will report to the Board of Directors, will be assisted by James Harnett, the current acting president of Covenant House, who will resume his

position as Executive Vice President and Chief Operating Officer upon the appointment of the interim president.

We are grateful for any assistance that you are able to give us and, again, we appreciate your support.

Sincerely,

Ralph A. Pfeiffer, Jr.
Chairman

His Eminence John Cardinal O'Connor
Archbishop of New York
Cardinal's Residence
452 Madison Avenue
New York, N. Y. 10022.





CARDINAL'S OFFICE
1011 FIRST AVENUE
NEW YORK, NY 10022

March 12, 1990

Dear Mr. Pfeiffer,

Since our extensive meeting of Wednesday, 7 March, your letter of 8 March and our meeting and press conference of 9 March, I have had limited, but important opportunity to reflect and consult my staff on your request that I release to Covenant House an Acting President for a period of six to nine months. My understanding is that Mr. James Harnett, current Acting President, would return to his position as Executive Vice President and Chief Operating Officer. Before all else, I would consider it urgent to clarify the role, the responsibilities and the authority of the Acting President vis-a-vis the Executive Vice President and Chief Operating Officer.

Further clarifications are required, as well. I note that in the fine set of goals you have set for the immediate future, including extensive investigation by Bob McGuire, the establishing of an oversight committee, a search committee, a thorough fiscal audit and other steps, there is no mention of an analysis of the philosophy of Covenant House and related activities, its raison d'être, or its organizational structure as related to its philosophy. Perhaps such is intended, but I do not see it explicated in your materials.

I believe that it will be imperative if even an acting president is to be able to assist effectively in Covenant House's survival and recovery, to do a thorough "audit" of aims, organization, purposes and the understanding of personnel about Covenant House's philosophy and reason for being. A lifetime of experience, coupled with a certain academic exposure to principles involved, convinces me categorically that changes "at the top" are ultimately fruitless, unless everyone involved thoroughly understands and supports the philosophy of an organization, since its policies and operating procedures must be rooted in and reflect its philosophy.

Therefore, while I remain absolutely committed to providing you with an Acting President, and with whatever other assistance you may request within our resources, I believe that before such an individual is named, certain understandings must be reached about the matters cited immediately above.

I do not want to be inordinately demanding, and I have been aware for years that Covenant House prefers to maintain a certain distance from the Archdiocese of New York, but as I see it, the entire organization is in a

life-death situation. If survival during this crisis is to be possible, and recovery is to follow in the future, painfully clear understandings will have to emerge, and attitudes will have to undergo whatever "conversion" is required.

May I suggest, then, that instead of my naming an individual immediately, a small team of my representatives meet with you and individuals you designate, to discuss the above? I am not speaking of extensive delay. My representatives will be available during this current week, while I am in Rome. I hope you can be available to meet with them rather extensively. I will consult with them after my return.

It must be remembered that our formal or "official" knowledge of the inner workings of Covenant House and related activities is minimal. It would add even further difficulty for an individual named by me simply to enter the arena without a very thorough understanding.

I am hopeful that mistakes of the past that were often a function of limited understanding can be obviated by pursuing this approach.

Please accept once again my sincerest gratitude for your truly heroic and self-sacrificing efforts.

With sentiments of highest esteem, I remain

Faithfully in Christ,



John Cardinal O'Connor

Archbishop of New York

Mr. Ralph A. Pfeiffer, Jr.
Chairman of the Board
Covenant House
460 West 41 Street
New York, NY 10036

03/22/90

The New York Times - Op-Ed

Last night, more than 1,500 homeless kids found shelter at Covenant House. Most of them knew nothing, or cared little, about the crisis which has swirled around us since December. What they cared about was the food, shelter, and help they knew they would receive at Covenant House.

But I worry about the future: Will Covenant House be able to survive? Will we have to turn these kids away? Will they be the ultimate victims of this heated crisis? And will the board and staff of Covenant House be able to move fast enough to repair the damage and set the organization on a new course?

None of what has happened is the kids' fault. But ultimately, they're the ones who could suffer the most.

If we have to close our doors, tens of thousands of exploited and abused youngsters will have no place to go. That is not hyperbole; that is fact.

We shelter more than 26,000 kids -- 365 days a year, 24 hours a day -- at our 12 locations in the U.S., Canada and Latin America. Our annual budget goes to programs to help kids -- a budget which is three times what the federal government spends on runaway youths.

The stakes are enormous and cannot possibly be measured in dollars and cents. We are talking about young men and women fighting for their survival. A serious decline in donations could kill all hope for these kids.

Of all the tragedies, that would be the greatest. The hope of thousands of homeless kids would perish. Certainly that's not the outcome anyone wants, even those who criticize Covenant House harshly.

To remedy past mistakes, we must learn from them. Mistakes were made, no doubt about it. But we are doing everything possible to correct them.

A year ago the board set up a planning committee to review the agency's structure and business operations. With the help of some outside experts, we developed a nine-point program which the board endorsed for implementation. On November 21, I was elected Chairman of the Board with a mandate to carry out this plan.

The plan was designed to enhance and expand our programs; to establish quality controls; to strengthen our human resources; to clarify the roles and responsibilities of local Boards; to improve financial controls; and to set forth a plan for succession.

Unfortunately, much of the plan is still to be implemented -- a plan desperately needed to help kids -- because the attention of everyone involved in Covenant House has been focused on the tragic events which engulfed the organization in December.

On February 27th of this year, Father Ritter resigned. It is at that point that the board took the first steps to get Covenant House moving forward again.

In recent weeks, the board has taken swift and decisive action. It asked former New York Police Commissioner Robert J. McGuire to investigate every allegation of misconduct at Covenant House. It created an oversight committee of distinguished Americans whose members include William Ellinghaus, Rabbi Marc Tannenbaum, Rev. Theodore Hesburgh, Cyrus Vance and Paul Volcker. We created a special search committee which includes members of the board as well as James Burke, Bishop Emerson Moore, Msgr. James Murray and Joan Ganz Cooney, to find a permanent replacement for Father Ritter. Other experts began an examination of our compensation and accounting policies. In addition, a new acting president of Covenant House will be recommended by Cardinal O'Connor within days.

I am well aware, however, that such actions represent only a first step. The key lies, as it always has, with the people involved in Covenant House -- from donors, to volunteers, to paid staff, to members of the board. The recent allegations have had a dispiriting effect on many of us. It is time now to rededicate ourselves to Covenant House's basic principles -- to provide food, shelter and guidance to every runaway kid who seeks our help.

Our goal is to ensure that the kids continue to receive the very best professional care. Such care includes: free medical treatment for every street kid who needs it; specialized services for HIV positive and drug dependent teenagers; shelter for single teenage parent families; a national crisis hotline for kids and parents; and outreach vans offering sanctuary to thousands of kids still on the street.

We are on the right track. Our effort is to demonstrate to our supporters, critics, and those waiting on the sidelines, that we are correcting our mistakes and making Covenant House stronger.

It is time to move forward. We must preserve our most basic covenant: that no child in need will be turned away.

Ralph A. Pfeiffer, Jr.

Ralph A. Pfeiffer, Jr. is Chairman of the Board of Covenant House.

20 March 1990

The Editor
The New York Times
229 West 43rd Street
New York, New York 10036

Dear Editor:

Your suggestion that Covenant House Board resign (editorial, March 16, 1990) is a simplistic solution to the many problems facing the organization. It would be an easy way out for the board, but a great disservice to the thousands of kids served by Covenant House. We now know better than anyone the mistakes made in the past and the dramatic steps needed to correct them. And, as your editorial pointed out, the problems occurred "without the knowledge of the prominent people Father Ritter recruited for his Board."

A mass resignation would result in a long period of indirection and a lack of leadership while the search progresses for new board members and a new President. Rather than speeding up change, it would dangerously delay the revised management practices and standards that we are implementing.

As the editorial notes, we have taken "wise and forceful steps" to rebuild Covenant House and uncover any lingering problems. This includes pursuing an independent investigation into every allegation facing Covenant House and forming a distinguished oversight committee to provide advice and counsel.

We are also reaching out aggressively to recruit new board members with the insights and experience needed to strengthen Covenant House. And, perhaps as early as this week, Cardinal O'Connor is expected to recommend a new Acting President for Covenant House.

In sum, will leave no stone unturned in the fight to restore Covenant House's vital work. Our kids deserve no less.

Sincerely yours,

Ralph A. Pfeiffer, Jr.
Chairman of the Board

19 March 1990

Ms. Jane Ungless
Letters Editor
Editorial Office
Newsday
2 Park Avenue
New York, New York 10016

Dear Ms. Ungless,

Your suggestion that the Covenant House board step down (Editorial, March 16, 1990) might provide all of us with an easy way out, but would greatly impede the efforts to rebuild Covenant House to meet the needs of thousands of troubled kids.

We share your dismay over some of the revelations concerning Covenant House's past operations. Mistakes were made, but once we became aware of them, we took swift and decisive action.

Unfortunately, your editorial does not focus on the acknowledged problems in the past management of Covenant House, but on several unsubstantiated charges. In the midst of this current crisis, rumors and innuendo now become "exclusive" news stories without the usual editorial process to assure some factual basis for each allegation.

We treat thousands of kids every month, many of whom are very troubled. The murder of one young man treated by our outreach van is very tragic and shocking. Sadly, the streets are dangerous and brutal and that is what Covenant House's work is all about.

Your editorial refers to "drug and alcohol use" in some of our shelters. We have very effective and successful treatment programs for both drug and alcohol addiction. But we do not run a prep school. Kids do not leave their problems at the door when they enter our program - a program which, in my view, is unmatched in dealing with troubled kids.

Oddly enough, the editorial fails to mention any of the steps the Board is taking to rebuild Covenant House. We have hired former Police Commissioner Robert C. McGuire to investigate every allegation, including those mentioned in

the editorial. We have appointed an outstanding oversight committee, including William M. Ellinghaus, Cyrus R. Vance, Paul A. Volcker, Rev. Theodore M. Hesburgh, and Rabbi Marc H. Tannenbaum. Our search committee for a new President will include James E. Burke, Bishop Emerson Moore, Rev. Msgr. James J. Murray, and Joan Ganz Cooney. We have also recently asked Cardinal O'Connor to help find an interim President.

If we took your suggestion and resigned, Covenant House would face a long period of indirection and uncertain leadership while the search continues for new Board members and a new President. Rather than speeding up recovery, it would dangerously delay necessary changes in management practices and standards that we are implementing.

We have an obligation to the kids treated by Covenant House to clean up the problems and create good management practices for the future. To enable Covenant House to continue to save thousands of kids on the street, we will leave no stone unturned. The kids' futures depend on our success.

Sincerely yours,

Ralph A. Pfeiffer, Jr.

