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MS-603: Rabbi Marc H. Tanenbaum Collection, 1945-1992.

Series E: General Alphabetical Files. 1960-1992

Box 81, Folder 6, Covenant House, 1990.



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## *Our Covenant Mission*

*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.*



## MESSAGE FROM THE PRESIDENT

Dear Friends,

As the new President of Covenant House, I am pleased to tell you that Covenant House is emerging from the most difficult year in its history — but it is emerging! We have much evidence that our recovery is well underway and that many people understand that Covenant House simply must be here for the kids who need us.



As you know, this year Covenant House suffered a painful setback. On February 27, 1990, Father Bruce Ritter, our Founder and first President, resigned. We pray for him and thank God for his vision which resulted in thousands of young lives being turned around.

Since Father Ritter's resignation, much has happened at Covenant House and I want to let you know the state of things now. The Board of Directors and senior management of Covenant House have taken extraordinary measures during the

past year to improve the governance of the organization and our services. The outcome of these measures resulted in the following statement about Covenant House:

*"We are convinced the recommended measures appropriately address past weaknesses and should assure a firm foundation for the future work of this unique and important organization. We agree . . . that there is far more right with Covenant House than there was wrong with it. The investigators report that, wherever they went, they found dedicated, honest and good people doing difficult, often thankless work under extraordinarily trying conditions. They conclude that the work of Covenant House is essential and so do we." \**

Since becoming President in September 1990, I have traveled to each of our programs. We are meeting the needs of thousands of kids. While some program cuts were necessary due to budget restraints, recent

*"Covenant House is emerging from the most difficult year in its history -- but it is emerging... People understand that Covenant House simply must be here for the kids who need us."*





Sister Mary Rose at the grave of Nahaman, a 14-year-old homeless youth who was beaten to death by four Guatemala City police in March, 1990. Murders and kidnappings of children are commonplace on the streets of Guatemala City. Nahaman's headstone reads, "I only wanted to be a child, but they wouldn't let me."

months have seen the stabilization of funding and the restoration of a few of these programs. New and innovative initiatives are developing at many of our sites. Effective aftercare of former residents, drug treatment, AIDS education, job training and placement, and ongoing general education have been extended to meet the growing and ever-changing needs of our kids.

We are here for the frightening numbers of older teenagers with no family structure or support. We are here for young pregnant teens and young mothers with babies -- all homeless. And we are here, too, for those kids facing the deadly AIDS virus alone. In fact, the growing underclass of children in our cities is a powerful affirmation of the continuing need for Covenant House. It is quite obvious to me after only six months here that Covenant House must not only survive, we must indeed do more!

Since Covenant House

was founded in 1968, over 200,000 young people have come to our doors to escape the agony of life on the street -- loneliness, hunger, pain and rejection. Our doors have remained open 24 hours a day, every day of the year because we believe that all young people deserve a chance for the future. Kids in Anchorage, Atlantic City, Fort Lauderdale, Guatemala City, Houston, Los Angeles, Mexico City, Newark, New Orleans, New York, Panama City, Tegucigalpa, Toronto, and Trenton all get a second chance at Covenant House.

I salute and thank most sincerely our donors, who have supported this work and recognized how essential it is that Covenant House continue. Almost 94 percent of the funds used by Covenant House to help homeless and runaway youth comes from private sources. We appreciate your faith, your trust and your generosity.

Everywhere in Covenant

*"To hear their stories,  
to listen to their  
experiences would  
say to you, as it said  
to me -- Covenant  
House saves lives!"*



New York Executive Director Bruce Henry celebrates Halloween with two of our young residents.



Honored guests join Covenant House Chairman of the Board L. Edward Shaw (left) and Sister Mary Rose in prayer during Sister's Inauguration ceremony. From left to right: New York Governor Mario M. Cuomo; Archbishop John Cardinal O'Connor; and New York Mayor David N. Dinkins

House I have found our staff to be not only qualified and committed professionals, but compassionate thinkers who continually search for better ways to serve. They are wonderfully supplemented by a corps of volunteers numbering in the thousands who are present at every Covenant House site. I salute this group of people who are indeed the heart of Covenant House.

Some have said to me, "You've got to be crazy to take that job. You're 62 years old and you've taken care of homeless people all your life. Why take on such an awesome responsibility now?" Well, from my perspective, there is no higher task than the care of these young people -- they are our future as a nation and as a society. Where better can we invest our lives? To me it is a work of the highest honor. It is a wonderful opportunity!

I wish all of you could have been with me as I met with groups of Covenant House residents everywhere I went. To hear their stories, to listen to their experiences would say to you, as it said to me -- Covenant House saves lives! My thanks to all of you for being part of this effort through your prayers, your interest, your volunteer efforts and your financial support. Thank you. May God bless us all and strengthen us for the future.

Sister Mary Rose McGeady, D.C.  
President, Covenant House

*"There is no higher task than the care of these young people -- they are our future as a nation and as a society. To me, it is a work of the highest honor."*

\*Statement by the Oversight Committee of Covenant House -- William Ellinghaus, Chairman; Rev. Theodore M. Hesburgh; Rabbi Marc Tanenbaum; Cyrus Vance; Paul Volcker.



## PROGRAM SERVICES

Covenant House is one of the largest privately funded child care agencies in the country. This year, we provided crisis care -- food, clothing, shelter, medical care, and counseling -- to 28,000 adolescents under the age of 21. Our doors never close.

Founded as a small group home in 1968 and incorporated in 1972 in New York City, today Covenant House has shelters in New York, Toronto, Fort Lauderdale, New Orleans, Houston, Los Angeles, Anchorage, and throughout Central America. Covenant House also has outreach programs in Newark, Trenton, and Atlantic City, New Jersey. Covenant House provided overnight refuge to homeless youths 523,457 times in 1990, and an additional 228,595

units of service were provided to needy youngsters in our outreach, aftercare, and follow-up services by our counselors across the country.

Covenant House was founded to provide crisis care for young people with no place else to turn. Today, through a variety of programs, Covenant House guides thousands of young people to productive and independent lives. In addition to 24 hour crisis care, Covenant House services include:

**Outreach** — Our covenant involves more than helping every boy or girl who comes to us. We are also committed to go to them -- to be there for those kids who need help but don't know where to find it. Counselors ride outreach vans meeting runaway and homeless youth on the street to provide assistance.

*This year, Covenant House provided crisis care -- food, clothing, shelter, medical care, and counseling -- to 28,000 adolescents under the age of 21. Our doors never close.*





**Substance Abuse Programs** — We assist young people who have drug and alcohol abuse problems through our short-term (usually 30-day), intense, and highly structured programs. Our goal is to prepare young people for longer treatment or transitional living programs.

**Health Services** — Covenant House is a leader in providing comprehensive health care to homeless adolescents. Health Services provide youth with pediatric and adolescent primary care, nursing and mental health services, testing and treatment for sexually transmitted diseases, OB/GYN services, and health education and counseling. An AIDS testing and education component has been added as well. Health Services is staffed by licensed physicians, nurses and support professionals and technicians.

**Mother/Child Program** — Many young mothers come to us with their babies and toddlers. We provide special programs for these young women to assist them with parenting and child care as we help them to plan for themselves and their children.

**Rights of Passage** — The Rights of Passage program is a transitional living program (for up to 18 months) which provides housing, education, and vocational services to young men and women. Through intensive counseling and motivational programs, the residents are given the support they need to take control of their lives and to develop the skills needed to live independently. Each resident is assisted by a volunteer 'mentor' who acts as the resident's advisor and supporter. Our first ROP program was launched in 1986.

**Nineline** — The Nineline is Covenant House's toll-free number (1-800-999-9999) which provides immediate, 24 hour crisis intervention for young people and their families. Since opening in 1987, the Nineline has fielded more than a quarter of a million crisis calls from kids and parents in trouble. With a database of over 20,000 shelters and organizations, our counselors are able to get help for callers from coast to coast and in Canada.

**Aftercare** — After the youth leave our residential services, they often require additional support and assistance to maintain their independence and follow through on their plans. These services are provided through our aftercare programs.

**Advocacy/Education** — We're committed to educating the public about the problems our kids face and advocating with public officials to assist our youth.

**Pastoral Ministry** — We offer a ministry of presence and guidance in spiritual values and services to our residents and staff through voluntary religious activities and counseling.

**Faith Community** — Community members at Covenant House volunteer their service to the homeless and runaway children we serve. Members dedicate a minimum of 13 months to our mission, pray together, and live a simple, communal lifestyle.





**RESIDENTS REPORT**  
(July 1, 1989 - June 30, 1990)

<b>PROGRAM</b>	<b>YOUTH SERVED</b>	<b>AVG YOUTH EACH DAY</b>	<b>TOTAL UNITS OF CARE</b>
New York	6,643	452	165,036
Canada	1,427	82	29,818
Texas	1,416	148	53,982
Florida	2,757	260	94,787
New Orleans	1,005	93	33,850
Alaska	584	43	15,602
California	4,479	108	32,008
New Jersey*	5,569	37	13,431
<b>TOTAL NORTH AMERICA</b>	<b><u>23,880</u></b>	<b><u>1,223</u></b>	<b><u>438,514</u></b>
Guatemala	1,590	499	182,339
Panama	1,308	177	64,549
Honduras	950	136	49,997
Mexico*	150	45	16,653
<b>TOTAL LATIN AMERICA</b>	<b><u>3,998</u></b>	<b><u>857</u></b>	<b><u>313,538</u></b>
<b>TOTAL ALL PROGRAMS</b>	<b><u>27,878</u></b>	<b><u>2,080</u></b>	<b><u>752,052</u></b>



\* Partial year statistics only -- both programs began in fiscal year 1990.

## REPORT FROM THE TREASURER

Fiscal year 1990 was a difficult year financially for Covenant House. Despite the resignation of Father Bruce Ritter, we are pleased to report that total support from the public grew by \$9.6 million dollars, a 12 percent increase over the previous year.

Substantially all of these gains occurred prior to February. Due to a drop in our income in the last quarter, we were forced to make budget reductions. We have been able to restore a few of the program cuts as our finances have stabilized.

Of the monies spent on Program and Supporting services, 66 percent went directly to the kids. This includes the cost of food, clothing and shelter as well as the compensation of the hundreds of people who work directly with the kids, including child care workers, social workers, and support staff. The remainder of our expenditures went toward fundraising and administrative expenses and represented 21 percent and 13 percent of the total respectively. It is important to note here that most of our income comes from the general public -- individuals, corporations, and foundations.

In fiscal year 1990 we incurred a substantial loss on a real estate purchase we made in 1984. We bought a hotel in Times Square to house our transitional living program and administrative offices. Our hope was that its value would increase over time and would one day become part of our endowment. After we purchased the property, the City of New York passed a law which restricted its use to a Single Room Occupancy (SRO) facility. This made it virtually impossible to use it as we originally intended.

In December 1987, we sold the property. As a condition of the sale, we had to guarantee the mortgage which the purchaser assumed. We believed the property would be sufficient collateral to cover the mortgage. Subsequently, the buyer declared bankruptcy. For two years we tried to resolve the bankruptcy and/or sell the Hotel. With the New York

### COVENANT HOUSE AND AFFILIATES

#### COMBINED STATEMENT OF PUBLIC SUPPORT, REVENUE, AND EXPENSES AND CHANGES IN FUND BALANCE (For Year Ended June 30, 1990)

##### Public support and revenue:

##### Public support:

Contributions	\$88,705,069
Donated services and merchandise	<u>3,703,168</u>
Total public support	<u>92,408,237</u>

##### Revenue:

Government grants and contracts	5,046,198
Other grants	65,831
Loss on Dove Services, Inc.	(203,728)
Interest, dividends and other	2,055,760
Net income of unconsolidated affiliate	30,068
Write-off of leasehold improvements and loss of fixed assets	<u>(1,230,236)</u>
Total revenue	<u>5,763,893</u>
Total public support and revenue	<u>98,172,130</u>

##### Expenses:

Program services	60,700,572
Supporting services:	
Fund-raising	19,511,541
Management & general	<u>11,889,949</u>
Total program & supporting services	92,102,062
Loss on guaranty of mortgage	<u>9,643,007</u>
Total expenses	<u>101,745,069</u>

##### Deficiency of public

support and revenue over expenses (3,572,939)

Fund balances, beginning of year 58,198,020

##### Other changes in fund balances:

Current year translation adjustment (1,024,722)

Fund balances, end of year \$53,600,359

City real estate market falling precipitously, neither effort was successful. Consequently, the property was sold at auction. We were responsible for the mortgage, incurring a loss of \$9.6 million.

One final note -- over the years, many of our donors have found the term "Fund Balance" confusing. This term does not refer to cash. It represents our "Net Assets" (assets minus liabilities). Almost all (75 percent) of this Fund Balance is invested in the property, plant and equipment used in our programs.

If you have any additional

questions, or want a copy of our audited Financial Statements, please write to me at:

Covenant House  
346 West 17th Street  
New York, NY 10011-5002

Robert R. Cardany, Jr.  
Senior Vice President  
Treasurer



## YOUR PART OF THE COVENANT

People often ask us, "What can I do to help?"

Here are a few suggestions:

- Stay informed of how we are working at Covenant House to help kids. Ask to receive Sister Mary Rose's monthly newsletter by writing to her directly or contacting one of our programs.

- Invite one of our speakers to address your school, church, or community group. Call the Covenant House program in your area and ask for the Speaker's Bureau.

- There are a wide variety of volunteer opportunities at Covenant House. Volunteers are needed to staff the Neline, our 24 hour crisis hotline for kids and parents in crisis. We need volunteer 'mentors' to work one-on-one with young men and women in our Rights of Passage program. And it is only with the help of hundreds of dedicated volunteers that we're able to keep the doors of our crisis shelters open 24 hours a day, seven days a week. Please call our toll free Neline (1-800-999-9999) if you can help.

- Call us about our Faith Community. The Covenant House Faith Community is a group of full-time volunteers who put their faith into action by dedicating 13 months of their lives to the mission of Covenant House. Community members live together in prayer and service to God and to the homeless and runaway children of Covenant

House. If you are over 21 years old, please consider joining this special group of people in what has invariably proven to be a high point in life for so many.

- If you need help, information, or just someone to talk to, call the Covenant House Neline (1-800-999-9999). Our counselors are available 24 hours a day, seven days a week to provide immediate crisis intervention and counseling to callers across the United States and Canada.

- Consider helping our kids through our Planned Giving Program. This year, 198 friends made their final gift to Covenant House through bequests. For many of them, their bequest is the most meaningful contribution of their lifetime.

When you name Covenant House in your will, you include our young people among the priorities of your life. The friends who left bequests in 1990 revealed the depth of their personal commitment to saving our kids. Their dedication brings lasting encouragement to us at Covenant House.

We remember with deepest appreciation these beloved members of the Covenant House family. Our prayers will be with them always. They will be with us always.

*"You are ever a part of our lives. All the good you have shared will live on in our hearts."*

*(Weston Priory)*

Please contact our Planned Giving Program at (212) 727-4110 for more information.



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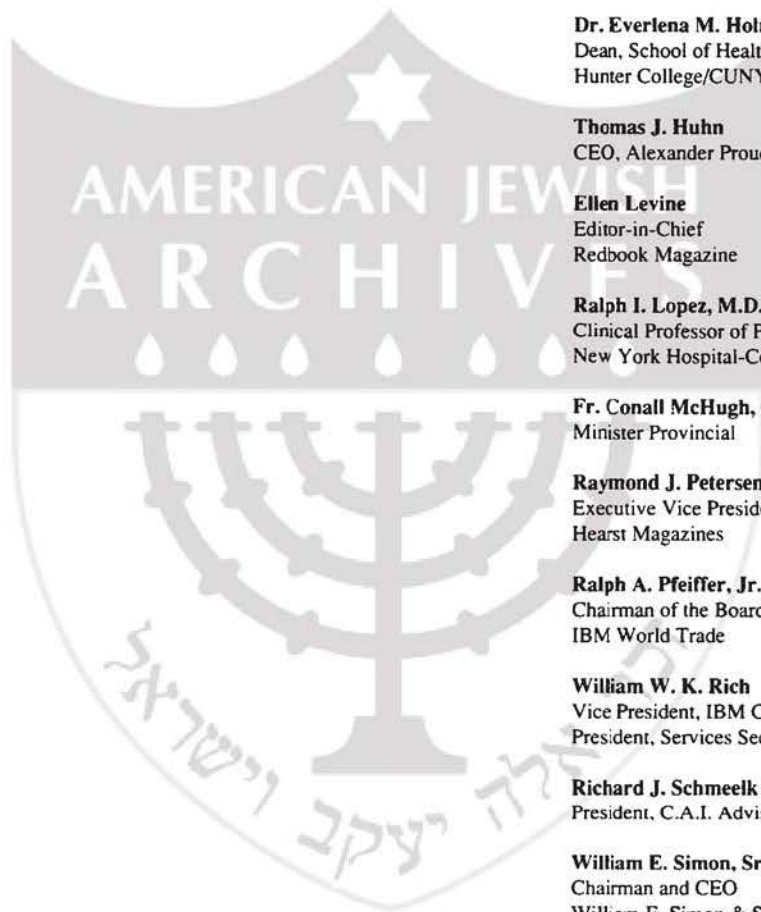
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**Covenant House**

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Atlantic City, NJ 08401  
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**Covenant House Honduras**

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**Covenant House Mexico**

Bruce Harris  
Acting National Director  
Apartado Postal 61-132  
06600 Mexico, D.F.  
Mexico  
011 525 208 4999

AMERICAN JEWISH  
ARCHIVES



SUBJECT: MEMORANDUM FOR THE MEMBERS OF THE OVERSIGHT COMMITTEE

OVERSIGHT COMMITTEE

COVENANT HOUSE

July 23, 1990

FR. HESBURGH:  
RABBI TANNENBAUM:  
MR. VANCE:  
MR. VOLCKER:

*914-288-4050 (o) Saunders, White Plains*

AMERICAN JEWISH

Enclosed is a draft of the Report that will be presented to the Board of Directors of Covenant House on July 30th and to us on July 31st. If you wish to submit any comments prior to our meeting, please give them to Paul Saunders (212-474-1404 or 914-0571) or Tim Massad (212-474-1154 or 212-228-7871) of Cravath, Swaine & Moore. It is anticipated that the Report will be made public in early August, but until then, please treat this copy as highly confidential.

I have taken the liberty of including for your consideration a draft statement that our Committee might issue, together with a short summary of the Report. We can discuss that statement at our meeting on July 31st. That meeting will begin at 8:00 A.M. at the Covenant House 17th Street facility, 2nd floor conference room. I look forward to seeing you then.

*Bill*

Bill Ellinghaus  
Chairman

Enclosure

**FOR IMMEDIATE RELEASE**

For More Information Contact:  
Paul C. Saunders, Esq.,  
Cravath, Swaine & Moore  
at (212) 474-1000  
Covenant House Communications Dept.  
at (212) 727-4037



**COVENANT HOUSE**

COMMUNICATIONS DEPARTMENT  
346 WEST 17 STREET · NEW YORK, N.Y. 10011-5002  
(212) 727-4037 Fax: (212) 989-9098

**August 3, 1990**

## **COVENANT HOUSE BOARD RELEASES REPORT**

The results of several investigations into allegations of misconduct at Covenant House and into the agency's operations which were conducted during the past five months were released today.

The investigations were commissioned by the Covenant House Board of Directors after Father Bruce Ritter resigned as President of Covenant House on February 27, 1990.

The investigations were conducted by the law firm of Cravath, Swaine & Moore; the investigating firm of Kroll Associates and its senior Managing Director Robert J. McGuire, former New York City Police Commissioner; the independent accounting firm of Ernst & Young; the Child Welfare League and Richard Shinn, former Chief Executive Officer of Metropolitan Life Insurance Company.

The reports contain these principal findings:

1. In view of the cumulative evidence discovered by Kroll Associates supporting the allegations of sexual misconduct on the part of Father Ritter, if he had not resigned as Covenant House President, the termination of his relationship would have been required.
2. The Board should have been made aware of and reviewed Covenant House's contribution to a charitable trust established by Father Ritter, as well as loans to two senior staff members, and contracts with Father Ritter's niece. There is no evidence of any other material financial impropriety or mismanagement. Certain relatively minor problems were found principally with the petty cash and payroll cash disbursement systems at two Covenant House subsidiaries.
3. There is no evidence of any irregularities or operational difficulties in Covenant House's collection and safeguarding of donor contributions.
4. Compensation of Covenant House executives is well within acceptable limits.

(more)

Marc H. Tanenbaum  
45 East 89th St. (18 F)  
New York, New York 10128

August 7, 1990

Dear Bill,

I simply wanted to express to you my deep appreciation for the privilege of serving under your chairmanship of the Covenant House Oversight Committee.

That was one of the most emotionally complex issues with which I have been involved, and you steered us through these shoals with consummate skill and wisdom.

My other purpose in writing is to apologize for my lapse in greeting you as Ralph. I have gone through some heavy weeks - a classmate of mine, a dear friend, died of cancer after a three-week coma; another classmate underwent a second heart-bypass surgery last week; and my wife's Vassar classmate was notified the day before that she had lymphema.

It was not a good week for clear-headedness.

In any case, I sincerely hope that our relationship and friendship will continue. It would in fact be lovely to have luncheon with you when you are back from your holidays.

With every good wish to you and Mrs. Ellinghaus, I am,

Cordially,

*Marc*

914 - 337 - 5161 (h)  
- 605 - 7760 (o)

Mr. William Ellinghaus  
Steneleigh 2  
Brenxville, New York

10708

Apt. 3 H





# COVENANT HOUSE

346 WEST 17 STREET · YORK, N.Y. 10011-5002  
(212) 727-4993 · (212) 727-4992

RALPH A. PFEIFFER, JR.  
CHAIRMAN OF THE BOARD

August 7, 1990

Rabbi Marc H. Tanenbaum  
International Relations Consultant  
American Jewish Committee  
45 East 89 Street  
New York, NY 10029

Dear Marc:

On behalf of all of us at Covenant House, I want you to know how very grateful we are for your thoughtful and dedicated work on the Oversight Committee.

By all measure, the work of your committee gave assurance to the public that the several investigations were complete and fully credible. This allows us now to begin the rebuilding process that is so badly needed.

Marc, you and Bill did a great job of representing your committee to the press last Friday. As Bill said, we are "squeaky clean" and anxious to get on with the real work of Covenant House -- caring for troubled and needy kids.

We are eternally thankful to you for reinforcing our work with both your reputation and very constructive direction. I hope you share our belief that your contribution to Covenant House was worth your considerable effort.

Sincerely,

Ralph A. Pfeiffer, Jr.

rdt/

*Many thanks, Marc for your strong leadership when it counted the most.*



# COVENANT HOUSE

346 WEST 17 STREET · YORK, N.Y. 10011-5002  
(212) 727-4993 · (212) 727-4992

RALPH A. PFEIFFER, JR.  
CHAIRMAN OF THE BOARD

## BOARD OF DIRECTORS

August 13, 1990

Memorandum to: Covenant House Oversight Committee

Subject: Anne B. Donahue's letter to Paul C. Saunders  
dated August 3, 1990

You were copied on Ms. Donahue's letter. Ralph Pfeiffer is on vacation and has asked me to forward a copy of Paul's reply.

Ms. Donahue was formerly Executive Director of Covenant House in Los Angeles and resigned her position effective June 30, 1990.

Peter C. Palmer

Encl.  
cc: Thomas J. Edwards

# CRAVATH, SWAINE & MOORE

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ERIK F. HEINZELMAN  
D. ROBBINS NIEBLING  
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PORT O. HILLSON  
NEIL P. WESTREICH  
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RICHARD W. CLARY  
WILLIAM P. ROGERS, JR.  
JAMES S. COOPER  
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ROBERT A. KINDLER  
DANIEL L. MOGLEY  
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August 10, 1990

Dear Anne:

This is in response to your letter to me dated August 3, 1990. I am sorry that you feel misled by the actions of the Kroll Associates' investigator who interviewed you. I understand from the Kroll people that the "Memorandum of Understanding" was discussed with you as "a modus operandi for conducting the interview in light of your initial request to tape record the interview, but that it was deemed unnecessary after Kroll agreed to your request to permit a third person to sit in on the interview and take notes for you. I understand from them that Ms. June Reis did in fact attend the interview and took notes for you. You should therefore have a complete record of your interview.

When you called me a few weeks ago to ask about the "Memorandum", I inquired and learned from Mr. McGuire that no memorandum of your interview has been or would be prepared. I have also been told that nothing that you said during the interview formed the basis of anything contained in the final report. The interview is not mentioned in the report, and you were not quoted. When you telephoned me last Thursday I was out of the office but I received your message and reverified the facts. Since you did not leave your telephone number in New Jersey and since I had misplaced the number that you gave me earlier, I did not know how to reach you to return your call.

Your letter to me was apparently written before you had an opportunity to read the report. I hope that you

have now had that opportunity, and will find that it is thorough, honest and fair. I know that those who were responsible for the preparation of the report certainly tried to make it so.

Please call me if you would like to discuss any of this any further.

Best regards.

Sincerely,



Paul C. Saunders

Ms. Anne B. Donahue,  
88 Boulevard,  
Mountain Lakes, New Jersey 07046.

Copy to Ralph A. Pfeiffer, Jr., Esq.,  
Chairman of the Board,  
Covenant House,  
346 West 17th Street,  
New York, N. Y. 10011-5002.

William M. Ellinghaus, Esq.,  
American Telephone and  
Telegraph Company,  
550 Madison Avenue (Room 505),  
New York, N. Y. 10022.

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STATEMENT OF THE COVENANT HOUSE OVERSIGHT COMMITTEE

On March 7, 1990, The Board of Directors of Covenant House appointed us to serve as an Oversight Committee. Our purpose was to receive and review the results of the various investigations into allegations of misconduct that the Board commissioned Cravath, Swaine & Moore, Robert J. McGuire of Kroll Associates, Ernst & Young and others to perform. During the past five months, we have met several times and we have received oral and written reports from the investigators and others.

We have received and studied carefully the Report to the Board of Directors and the Oversight Committee concerning the results of the investigations. A brief summary of that report is attached.

We find that the Report is a thorough, careful, and honest appraisal of Covenant House. It demonstrates that the investigations have been intensive and impartial. The allegations of misconduct are reported with candor but also with compassion and prudence.

Most important, the report describes the many structural, operational and policy changes that have been implemented at Covenant House since March 1990. We conclude that the Board has taken (all the) right steps in attempting to get Covenant House's house in order. We know of nothing

that should be done that has not been or is not being done.

We approve of the Report. It is complete, frank and fair. We also agree with its conclusion: there is far more right with Covenant House than there was wrong with it. While it is clear that mistakes were made, we believe Covenant House as an institution did not break its covenant with the young people it serves, its staff or its supporters. We believe that Covenant House is a fundamentally sound organization doing vital work, and that it needs and deserves the public's support.

William Ellinghaus, Chairman

Rev. Theodore M. Hesburgh

Rabbi Marc Tanenbaum

Cyrus Vance

Paul Volcker

SUMMARY OF THE REPORT

The first section of the Report describes the structure of Covenant House and the governance and management changes made since Father Bruce Ritter's resignation. The Report describes how Covenant House was incorporated in 1972 by Father Ritter as a not-for-profit corporation and how he became the "sole member" of the corporation in 1975. As a result of becoming sole member, Father Ritter appointed all of the directors and officers and had complete legal and operational control of Covenant House. During the 1980s, Covenant House grew to a corporation with an \$85 million budget, serving 25,000 young people a year.

After Father Ritter's resignation in 1990, Covenant House was reorganized so that the membership structure was eliminated and full control of the organization reverted to the Board of Directors. Since March 1990, the Board of Directors has been reconstituted; five members have resigned and nine new members have been elected. A new President, Sister Mary Rose McGeady, was chosen on July 10, 1990, and will start on September 1, 1990. New By-laws have been adopted as have a number of procedural and policy reforms concerning conflicts of interest, financial transactions and other matters, described in the Appendix to the Report.

The second section of the Report constitutes the report of the investigation conducted by Kroll Associates into allegations of sexual misconduct and financial and other improprieties. [With respect to allegations of sexual misconduct on the part of Father Ritter, the Report concludes that the evidence of sexual misconduct is far more extensive than has been publicly reported and that in view of the cumulative evidence found by Kroll supporting the allegations, if Father Ritter had not resigned from Covenant House, the termination of his relationship with Covenant House would have been required. The Report further concludes that even if one were to accept Father Ritter's denial of the allegations, he showed very poor judgment in certain of his actions.]

With respect to allegations of financial and other improprieties, the Report discusses the Franciscan Charitable Trust, a trust established by Father Ritter in 1983 from surplus funds available to him from compensation paid by Covenant House to his Franciscan Order in respect of his services. At Father Ritter's direction, Covenant House made a \$60,000 annual contribution to the trust and the trust made loans to two Covenant House directors, Father Ritter's sister and one former Covenant House resident. The Report finds that the Covenant House contribution should not have been made without the Board's knowledge and approval, and



notes that the trust funds are reported to be intact and will be contributed to Covenant House.

The Report also finds that Covenant House made loans to Father Ritter and to two other senior staff members that should, at a minimum, have been reported to and approved by the Board. Likewise, Covenant House's contract with companies owned by Father Ritter's niece and her husband should not have been made without Board knowledge or approval and competitive bidding.

Kroll's review of Covenant House's financial systems revealed no irregularities or improprieties with respect to Covenant House's collection and safeguarding of donor contributions. Kroll did find some operational deficiencies with Dove Messenger Service, a small subsidiary that has been discontinued, and with the payroll in the Security Department of another subsidiary, Under 21, which it reported to the proper authorities. Kroll also found some operational deficiencies with various petty cash funds. Kroll found no other evidence of financial impropriety. This section concludes with a report on several other miscellaneous allegations that were found to be unfounded or relatively minor.

The third section of the Report summarizes the findings of Ernst & Young, the independent public accounting firm, which conducted a special review of the Covenant House

financial operation and those of three of its subsidiaries. In general, Ernst & Young found that there was an adequate level of control consciousness and that further improvements were planned. Although most of the tests performed by Ernst & Young revealed no discrepancies, a few problems were reported in the areas of petty cash, cash disbursements and payroll, most of which were at the subsidiary, Under 21. Ernst & Young also found no problems in the systems for collecting and safeguarding donor contributions.

The fourth section of the Report discusses compensation levels and reports the findings of Richard Shinn, Executive Vice Chairman of the New York Stock Exchange, that Covenant House's compensation levels are well within acceptable limits and that the approach and implementation of management has been professional and reflects fair compensation.

The fifth section of the Report summarizes the report of the Child Welfare League on certain Covenant House programs, which found that the programs are generally well-conceived and appropriately structured and provide a sound response to the needs of homeless youth.

The sixth section of the Report sets forth the overall conclusion that the investigators found far more right with Covenant House than they found wrong with it, that they found dedicated staff members and volunteers doing

good and essential work under difficult circumstances, that the organization is fundamentally sound, and that it must survive to serve those young people who so desperately need its services.



Boards of Directors  
Covenant House and Under 21

We have performed the agreed upon procedures enumerated below with respect to the system of internal accounting control of Under 21 (excluding its subsidiary, Dove Services, Inc.), a subsidiary of Covenant House, in effect at March 31, 1990. It is understood that this report is solely for your information and is not to be quoted from, summarized or distributed for any purpose to anyone who is not a member of the management of Under 21, its parent, Covenant House, its counsel or the Oversight Committee without our consent. It is also understood that this report will be provided to the New York State Attorney General in connection with his investigation of Covenant House and that it will be summarized in a report to the Board of Directors of Covenant House and the Oversight Committee by counsel to Covenant House, which report may be made public. Our procedures and findings are as follows:

Procedures - Internal Control Environment

We obtained an understanding of the internal control environment at Under 21 by discussing Under 21's overall operations and recent changes in the organization and its operating environment with senior management and the senior management of its parent, Covenant House; reviewing the minutes of Board of Directors' meetings during the nine months ended March 31, 1990; and considering information obtained in performing all our other procedures.

The overall control environment of an organization is composed of two elements: control consciousness and general control mechanisms.

Control consciousness refers to the importance management attaches to internal accounting control and, thus, to the atmosphere in which specific internal accounting controls function. It is in large part intangible; a management attitude which, when communicated and reinforced, serves to reduce the likelihood that specific accounting controls will be circumvented.

General control mechanisms provide the necessary discipline so that specific accounting controls can function effectively. They include:

- the organizational structure
- the duties and authority of an organization's Board of Directors and senior management

- the methods used to communicate responsibility and authority
- the financial accounting and reporting systems
- the principal reports prepared for management planning and control purposes, such as budgets
- management's supervision of the system
- the integrity and competence of personnel
- the extent of recent changes, if any, in the organization, its operations or its control procedures

### Findings - Internal Control Environment

Under 21 has recently undergone significant change: 1) several members of senior management (including the Executive Director) are relatively new to the organization (i.e., employed by Under 21 for less than one year); 2) the structure of Under 21 is undergoing changes, specifically: a significant program was in the process of being spun off as a separate subsidiary of the parent and a restructuring of the organization is underway based upon the recommendations of an internal study (subject to the constraints of the budget cuts implemented in late Spring, 1990) and 3) management and staff have been subjected to unusual demands on their time and energies due to a number of reviews and investigations by outside parties.

Such change can apply stress to the internal control structure of an organization but it can also provide the impetus for improvements in that structure. For the period covered by our procedures, it appeared that the management of Under 21 had an adequate level of control consciousness and had instituted and planned further improvements in the system of internal accounting control.

Our findings with respect to general control mechanisms are based on the system of internal accounting control that existed at Under 21 during the month of March 1990.

#### • Accounting and Reporting Systems

Financial accounting and reporting systems at Under 21 are designed to provide management with sufficient, accurate, timely information to manage the organization. As detailed in subsequent sections of this report, certain instances were noted where the internal accounting controls over the accounting system were either lacking or compliance with stated controls was not adhered to. In addition, specific accounting policies and procedures were frequently not documented or documented

on a piecemeal basis by individual memos. These memos sometimes changed existing policy and eliminated certain levels of control without explanation.

- Budgetary Controls

Under 21 employs a budgetary process as a method for planning its programs and other activities, measuring its performance and controlling costs. There is appropriate involvement in the process by those who will be responsible for achieving the budgeted results. However, as detailed in the cash disbursements section of this report, the budget to actual analyses were not performed timely for March 1990 and comparisons of actual results against budgeted results did not always include meaningful analyses due to the reformatting of reports.

- Management, Supervision and Communications

The operations of the finance department are segmented and the various segments, particularly payroll and petty cash, operate without an adequate level of guidance, supervision and review by management. In addition:

- individual position tasks and responsibilities are not clearly defined and, as these responsibilities are currently assigned, there are instances of inadequate segregation of duties;
- policies and procedures do not appear to be clearly or regularly communicated by the finance department to personnel in other areas of the organization.

- Override of System Controls

The system of internal accounting control over payroll expenditures was circumvented by payments to security guards, which were processed through the cash disbursements system, and payroll payments to employees of an affiliate, Dove Services, Inc., which were processed through petty cash. The cash disbursements and petty cash systems of internal accounting control were not designed to detect or prevent errors in the processing of payroll transactions or to determine whether individuals providing services are to be treated as employees or independent contractors.

Under 21 utilizes the central purchasing department of its parent, Covenant House, and is subject to the policies outlined in the related purchasing manual. The process is sometimes circumvented and, as a result, purchases are processed through the use of check requests which do not require competitive bidding.

- Conflict of Interest Policy

During March 1990, there was no formal conflict of interest policy statement in effect and communicated to personnel at Under 21. The Board of Directors of Covenant House, the parent organization, adopted an organization-wide conflict of interest policy in April 1990.

### Procedures - Design of System of Internal Control

Gained an understanding of the design of the accounting system and the system of internal accounting control by:

- discussing the operations of the payroll, cash receipts and cash disbursements systems with the personnel and management of Under 21 involved with their operation;
- discussing the overall operations of the finance department with the Director of Finance and senior management;
- reviewing the documentation of the accounting policies and procedures; and
- walking through a transaction in each of the systems to confirm our understanding of the flow of transactions through the accounting systems and specific control procedures in place within the systems during the month of March 1990.

### Findings - Design of System of Internal Accounting Control

A system of internal accounting control is designed to include specific control procedures at various points in the processing of transactions to ensure the internal control objectives of the organization are met.

In gaining an understanding of the design of the system of internal control, specific control procedures were identified. Those control procedures and the findings relating to the testing of those procedures appear in the subsequent sections of this report.

Our findings with respect to deficiencies in the design of the system of internal control follow:

- There is no adequate control procedure to ensure that the payroll data on the original payroll documents (i.e., new pay rates from personnel status notices and overtime or part-time hours from timesheets) is accurately transcribed onto the input sheets used by the outside payroll service. These sheets are the source from which the outside payroll service generates the payroll checks and payroll

registers. In addition, there is no management review of the payroll checks and payroll registers received from the outside payroll service.

- Physical access to checks is not well controlled. There is a log maintained to exert numeric control over the checks but, because of the manner in which it was maintained, it did not serve its control purpose.
- There are 25 separate petty cash boxes with an overall imprest balance of approximately \$20,000. The petty cash funds are replenished as needed by the authorization of a standing check request of \$20,000 per week. Average turnover of the petty cash funds during the nine months ended March 31, 1990 was approximately \$7-9,000 per week. There is no formal written policy regarding the controls over the handling of petty cash. However, an informal \$50 limit on individual petty cash expenditures exists generally in practice.
- The employee who handles the accounting function for petty cash performs a number of duties which conflict from an internal control perspective. The employee reviews the reconciliations prepared by the petty cash custodians and, in some instances, actually prepares the reconciliation; prepares the check request to replenish the funds each week; receives the cash replenishment; and disburses the cash to the various funds.
- There is no control log maintained for capital equipment, such as personal computers, indicating their location and the individual using the equipment.

#### Procedures and Findings - Cash Disbursements

1. We selected a statistical random sample of 68 checks from all the checks that had been written on the operating account during the month of March 1990 and performed the following procedures with respect to each of those checks:
  - a. Reviewed the disbursement package and verified that, in accordance with the central purchasing policy in effect during March 1990, the expenditure was appropriately supported by a check request or purchase order.

Findings: There were three items which were purchased by use of only a properly authorized check request. These items would normally be purchased via a purchase order (which requires competitive bidding). Further, under a strict interpretation of the policy in effect during March 1990, four additional items were



similarly authorized by check request instead of by purchase order. The remaining 61 items were authorized appropriately by check request or purchase order.

- b. Reviewed the purchase order or check request to determine that it was properly approved in accordance with organization policy.

Findings: One instance was noted of a check request for \$2,410 that did not have the requisite two approvals for expenditures greater than \$1,500. The check requests and purchase orders relating to the other 67 items were approved in accordance with the stated authorization policy.

- c. Reviewed the disbursement package to determine that the expenditure was supported by a vendor invoice or other independent evidence of the delivery of goods or services rendered, that the mathematical accuracy of such documentation was verified and that the total dollar amount of the invoice agreed to the check request.

Findings: Six expenditures (four of which pertain to payments to security guards) were not supported by invoices or other independent documentation of the goods received or services provided. The remaining 62 expenditures were supported by invoices or other independent documentation.

- d. Reviewed the coding sheets relating to the sample items to determine that they had been reviewed by the Chief Accountant and that they appropriately classified the various expenditures for financial accounting purposes. Coding sheets are prepared for each invoice to be paid and are the source of input to the computerized accounts payable/cash disbursements accounting system. The coding sheets detail the invoice amount, number, date, due date, description of goods or services and general ledger account classification for each invoice.

Findings: In 35 instances, there was no written evidence that the coding sheets were reviewed and approved by the Chief Accountant. We were informed that this occurred because, upon her initial review, there were errors on these coding sheets and, thus, they were returned to the preparers for correction. We were also informed that the Chief Accountant then reviewed and approved the corrections by inspecting an edit run of the transactions rather than obtaining the original coding sheets and indicating her approval on those sheets. The corrected codings appeared to be appropriate.

- e. Reviewed the cancelled checks to determine that they were signed by an authorized signatory, or two authorized signatories for checks greater than \$1,500, in accordance with organization policy.
- f. Reviewed the disbursement package to determine that the receipt of goods or services was evidenced by an employee signature on either the invoice, the receiving report or the check request.

Findings: Procedures e. and f. were performed on all 68 items without exception.

2. Reviewed the bank reconciliation for the month of March 1990 and verified that:

- the details of the reconciliation agreed to the accounting records and related bank statement;
- the reconciliation was mathematically correct;
- the reconciliation was performed on a timely basis.

Findings: The details of the bank reconciliation agreed to the accounting records and the related bank statement and the reconciliation was mathematically correct. However, the bank reconciliation was not performed until late May 1990. The bank reconciliation is a key internal control procedure for the detection of errors and unrecorded activity (e.g. bank charges, insufficient funds checks) and should be performed before the accounting records are closed for the month reconciled.

3. Reviewed the monthly organization-wide budget to actual variance analysis that was prepared by the Director of Finance and one department-level budget to actual variance analysis that was performed by a department head, in order to determine the approach employed in the analysis and the effectiveness of these analyses in identifying errors.

Findings: The organization-wide analysis was not performed for the month of March 1990. During March 1990, the format of the budget to actual variance report was changed and the explanation of the change was not sent to or was not received by department personnel. Thus, in reviewing the analysis performed by one department, it was found that the analysis was based on incomplete information and was ineffective.

4. For each of the twenty-five (25) petty cash boxes, examined one reconciliation performed during the month of March 1990 and verified that:

- the reconciliation was mathematically correct and expenses were reasonably classified;

- the receipts and vouchers adequately supported the expenditure and indicated the individual receiving the cash;
- individual expenditures did not exceed the informal \$50 limit.

**Findings:** Documentation of petty cash expenditures should include a petty cash voucher indicating the amount of cash disbursed and the individual it was disbursed to and a receipt supporting the expenditure. In reviewing the reconciliations and attached documentation for petty cash expenditures we noted:

- ten petty cash reconciliations in which there were instances of expenditures lacking receipts and expenditures lacking petty cash vouchers; in three of these reconciliations, there were instances where we could not determine that account classifications were reasonable due to the lack of complete documentation of expenditures;
- two petty cash reconciliations in which there were instances of expenditures lacking receipts;
- six petty cash reconciliations in which there were instances of expenditures lacking petty cash vouchers;
- instances of expenditures in excess of the \$50 limit and, in some cases, those same expenditures also lacked receipts;
- the reconciliations were sometimes performed by the petty cash clerk rather than the petty cash custodian;
- in all cases, the reconciliations were mathematically correct.

#### Procedures and Findings - Payroll

1. We selected a statistical random sample of 70 payroll checks that were issued during the month of March 1990 and performed the following procedures with respect to each of those checks:
  - a. Reviewed the timesheet related to the payroll check and verified that:
    - the timesheet was signed by the employee;
    - the timesheet was approved by the employee's supervisor;
    - the total hours per the timesheet agreed to the total hours paid per the payroll register.

**Findings:** One instance was noted of a timesheet submitted for overtime hours that was not approved by the employee's supervisor. In all other instances, the appropriate signatures and approvals appeared on the timesheets. In all cases, the total hours per the timesheet agreed to the hours paid to the employees per the applicable payroll register.

b. Reviewed the currently effective Personnel Status Notice ("PSN") on file for each employee whose payroll check was selected in the sample and verified that:

- the PSN had been approved by the finance department, the personnel department and the department that employs the individual;
- the hourly pay rate indicated on the PSN agreed to the pay rate per the applicable payroll register.

**Findings:** The current PSN for one employee could not be located. One PSN lacked all three approvals; two other PSNs were missing finance department approvals; and, in fifteen other instances, the PSNs were lacking the departmental approvals. The remaining 51 PSNs were all properly approved.

We could not verify the pay rate in one instance because the PSN could not be located. In another instance, the PSN indicated a salary increase was effective on March 14, 1990; however, the PSN was not received by the finance department until March 30, 1990. The retroactive pay rate increase was paid on June 14, 1990. In all other instances (68) the hourly pay rate per the effective PSN agreed to the pay rate per the applicable payroll register.

c. Verified that the benefit hours (vacation and sick time) available to each employee were correctly calculated and were properly increased by the standard bi-weekly increment and reduced by any vacation or sick time utilized during the payroll period.

**Findings:** In four instances, employee benefit hours were incorrectly calculated by the outside payroll service. We have been informed that the benefit hour program has been corrected by the outside payroll service. In the 66 other instances, the benefit hours were correctly calculated.

d. Verified that the department totals per the payroll journal (which included each sample item) were properly included in the journal entries and that the journal entries were properly posted to the general ledger.

Findings: All payroll journal department totals were properly included in the journal entry and the journal entries were properly posted to the general ledger.

2. Reviewed the payroll bank reconciliation for the month of March 1990 and verified that:
  - the details of the reconciliation agreed to the accounting records and the related bank statement;
  - the reconciliation was mathematically correct;
  - the reconciliation was performed on a timely basis.

Findings: The details of the bank reconciliation agreed to the accounting records and related bank statement and the reconciliation was mathematically correct. However, the reconciliation for March 1990 was not prepared until June 1990 and included reconciling items (unclaimed payroll checks) dating back to 1983.

3. Inspected the check pick-up log for the two March 1990 payroll dates and verified that the number of checks signed out by the various department representatives agreed to the number of payroll checks prepared for each department. If the number of checks signed out was lower than the number of checks prepared for a department, determined the reason and whether the separate check pick-up was properly authorized by both the department head and the finance department.

Findings: In five instances, the number of checks signed out on the check pick-up log was one check less than the number of checks prepared for that department. The log did not indicate that the checks had been separately signed out nor were the separate check pick-ups authorized by the department head and the finance department.

#### Procedures and Findings - Cash Receipts

The volume and dollar amount of cash receipts is not significant at Under 21. Cash receipts are limited to grant award payments and occasional contributions.

1. Reviewed the contributions file for the month of March 1990 and inspected the check copy and memo prepared for each donation received. Confirmed that each contribution had been received and recorded in the accounting records at Under 21's parent, Covenant House.

Findings: The contribution file contained memos and check copies for seven contributions received during the month of March 1990. The

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receipt and recording of all these contributions by Covenant House were confirmed without exception.

Maintenance of a control log of cash receipts forwarded to Covenant House for deposit, and periodic confirmation of the total receipts transferred, would strengthen the current control over cash receipts.

2. Reviewed all grant award receipts received during the month of March 1990. Inspected the supporting documentation prepared and submitted to the granting agencies and determined that it had been approved by the Director of Finance. Verified that the amount of the receipt agreed to the supporting documentation and had been appropriately recorded in the accounting records.

Findings: There were six grant award receipts during March 1990. In all instances, the amount of the receipt agreed to the supporting documentation submitted to the granting agency and was appropriately recorded in the accounting records.

3. Agreed grant award receipts per the cash journal to the monthly grant receipts journal entry and traced the journal entry to the general ledger.

Findings: Grant receipts were properly summarized and posted to the general ledger.

Because the above procedures do not constitute a study and evaluation of the internal control structure made in accordance with standards established by the American Institute of Certified Public Accountants, we do not express an opinion on whether the internal control system, taken as a whole, meets the objectives of internal accounting control insofar as those objectives pertain to the prevention and detection of errors or irregularities in amounts that would be material in relation to the financial statements of Under 21. In connection with the procedures referred to above, no matters came to our attention, that have not been included in our findings. Had we performed additional procedures or had we made a study and evaluation of the internal control structure in accordance with standards established by the American Institute of Certified Public Accountants, additional matters might have come to our attention that would have been reported to you. Furthermore, we have not audited any financial statements of Under 21 at March 31, 1990 or for any other period.

July 6, 1990

# O'Connor vows to clean up 'awful mess'

By JOE NICHOLSON

John Cardinal O'Connor yesterday vowed to help clean up what he called the "awful mess" at scandal-ridden Covenant House.

O'Connor said he will look for someone to run the charity until a new president can be found to replace Father Bruce Ritter, who resigned amid allegations of sexual and financial misconduct.

"An awful lot of this sounds irregular, highly irregular," O'Connor told a jammed news conference.

"It's an awful mess... No question it's a mess."

O'Connor said, however, he was not ready to believe four young men who have accused Ritter of luring them into sexual relationships while they were staying at the shelter.

Covenant House chairman Ralph Pfeiffer sur-

nounced steps "to put this house back in order."

■ Former Police Commissioner Robert McGuire will investigate all allegations of sexual and financial wrongdoing.

■ Formation of a special Committee of Oversight that will be chaired by William Ellinghaus, former president of AT&T. It will include former Secretary of State Cyrus Vance, former Federal Reserve Chairman Paul Volcker and Rabbi Marc Tanenbaum.

■ The prestigious firm of Cravath, Swaine & Moore will become general counsel — replacing Ritter's long-time counsel Edward Burns.

Referring to Ritter's declaration of innocence, O'Connor said, "I have no evidence to the contrary... My faith in Father Ritter is unshaken on the basis of any evidence given to me."

O'Connor denied he worked out a deal with Manhattan District Attorney Robert Morgenthau to get a criminal investigation of Ritter dropped in return for the priest's resignation.

The DA dropped his three-month probe hours after Ritter resigned.

"Mr. Morgenthau very kindly called" to give a briefing on the case, O'Connor conceded.

But he said, "There were no arrangements whatsoever... I was in no position to have Father Ritter resign."

"It was shocking. I was dismayed and I was angered," Pfeiffer said in answer to questions about a secret \$900,000 trust fund that provided loans to Ritter's sister and two board members who recently resigned.

Asked if Ritter misled the board, Pfeiffer said: "No. I do not have any reason to believe that. I do not know."

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AM-COVENANT

COVENANT HOUSE INVESTIGATES ITS FOUNDER

By Daniel Cox

NEW YORK, Reuter - Covenant House, the shelter for runaway teen-agers, announced Friday it had appointed a former New York City police commissioner to investigate its founder, Father Bruce Ritter, who resigned amid a sex scandal.

Ritter, who founded Covenant House from his apartment 22 years ago and built it into an \$87 million-a-year charity, quit last week amid allegations that he had sex with at least four of the young men his organization tried to help. He has consistently denied all charges but said he could not prove his innocence nor could his accusers prove his guilt.

Ralph Pfeiffer, chairman of the board of Covenant House, said the board was appointing former New York City Police Commissioner Robert McGuire to head the investigation.

McGuire will make a report to a Covenant House Committee of Oversight that includes former Secretary of State Cyrus Vance, former AT&T president William Ellinghaus, former Federal Reserve Chairman Paul Volcker, and Rabbi Marc Tannenbaum. Pfeiffer said a summary of the committee's report will be made public.

Pfeiffer told a news conference at the New York archdiocese that the Covenant House board failed to monitor Ritter's actions.

Ritter is also accused of financial improprieties, including making low-interest loans to staff members. The New York State Attorney General and the Franciscan order are also investigating Father Ritter's actions.

Pfeiffer, a prominent businessman, said, "The board failed because we had a fiduciary responsibility to Covenant House and to the kids ... Things are a complete mess."

But he said the board had no intention of stepping down.

Pfeiffer said that an accounting firm will thoroughly review of all of Covenant House's financial dealings. He said a committee also has been appointed to search for a successor to Ritter.

Pfeiffer said Archbishop of New York John Cardinal O'Connor would advise the committee. O'Connor, who attended the press conference "only at the request of Covenant House," said he had full faith in Ritter's innocence and at this point he had "no evidence to the contrary."

O'Connor said the Archdiocese had no intention of "taking over" Covenant House. He said he hoped the matter could be solved and fixed without dissolving the shelters, which aid runaway teen-agers and have helped tens of thousands of youths to leave lives on the street as drug addicts and prostitutes.

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**Covenant House official announces damage-control program**

By Gary O'Guinn  
RNS Staff Writer

NEW YORK (RNS) — Admitting that Covenant House is in “a mess” that the governing board had failed to prevent, the chairman of the board announced a series of steps to contain and repair damage done to the charity’s reputation and operations.

The program outlined here March 9 by Ralph A. Pfeiffer included asking Cardinal John O'Connor’s help and the formation of a blue-ribbon panel to oversee an exhaustive in-house investigation of all allegations of misconduct related to the youth shelter charity.

“We obviously failed,” Mr. Pfeiffer announced at a press conference at New York archdiocesan headquarters. “We feel we’ve got to fix Covenant House . . . We have a responsibility to the kids . . . the kids are Covenant House.”

Cardinal John O'Connor said the archdiocese had agreed to provide whatever assistance it could to Covenant House, especially in finding a six-month replacement as acting head, who he said would probably be a “priest on loan” from the archdiocese.

The head of the New York archdiocese concurred in calling recent revelations of insider loans and a secret trust fund “an awful mess,” and said, “We are prepared to do anything in our competency to help Covenant House recover its reputation where it may have been lost.”

The special four-member “Committee of Oversight” will be chaired by William Ellinghaus, former president of AT&T, and will include former Secretary of State Cyrus Vance, former Federal Reserve chairman Paul Volcker, and Rabbi Marc Tanenbaum, a veteran of Catholic-Jewish dialogues for the last 30 years and now a consultant to the American Jewish Committee.

Mr. Pfeiffer confirmed that a “thorough investigation” of the three months of accumulating allegations of sexual and financial misconduct raised against Covenant House founder Father Bruce Ritter and other officials would be conducted by Robert J. McGuire, a former New York City police commissioner who now is managing director of Kroll Associates, a private investigative firm.

Mr. McGuire will report to the board and the oversight committee and a summary of results and recommendations of his investigation will be released to the public.

The New York accounting firm of Deloitte & Touche will conduct a “thorough review” of financial policies and procedures, Mr. Pfeiffer said, adding that Richard Shinn, former head of Metropolitan Life Insurance Company and now an executive of the New York Stock Exchange, will review “compensation procedures.”

The chairman announced that the board had retained the law firm of Cravath, Swaine & Moore as general counsel to Covenant House.

**Lawyer’s resignation announced**

Mr. Pfeiffer also announced the resignation of Covenant House counsel Edmund Burns, who was sole trustee of a nearly \$1 million trust fund set up for runaway youth programs by Father Ritter. The existence of the fund was kept secret from the governing board except for the two members who received substantial loans from the fund and subsequently resigned themselves just days earlier.

Saying he had been “dismayed” and “angered” by recent questionable financial revelations, the chairman pledged to Covenant House supporters that their faith would not be misplaced. They “are entitled to our pledge to rigorously examine and repair the recent damage,” Mr. Pfeiffer, the former chairman of IBM World Trade, said.

But while he admitted the board had “failed in its fiduciary responsibility,” Mr. Pfeiffer

said he did not think that sacking the entire board "and starting over" was the best way to go. "We were operating without knowledge of the problems," he said.

Responding to a question, Mr. Pfeiffer said Father Ritter was not running the board nor did he think the priest "deliberately misled" the group.

Mr. Pfeiffer continued to express confidence in James Harnett, the present interim president of Covenant House and ally of Father Ritter who has been tainted by his association in the loans under investigation by state officials.

The board chairman described Mr. Harnett, who was not present at the press conference, as an excellent administrator and said that he would reassume his position as chief operating officer when a replacement interim head is found with the help of the archdiocese.

Mr. McGuire told reporters that being accountable to the board entailed no conflict or compromising pressure for him. "Mr. Pfeiffer told me, 'You take the investigation wherever it goes,'" he said.

Mr. McGuire said the authority to investigate "any and all these allegations" against Father Ritter, other officials and program operations had "absolutely no restrictions" and would be "completely independent." He also promised the investigation would be "thorough and accurate" and completed "as quickly as possible."

The former police commissioner stressed that the probe "would not prejudice the guilt or innocence of any one individual."

#### **A 'purely pastoral' relationship**

Cardinal O'Connor emphasized that the archdiocese's association with Covenant House was "purely pastoral." The archdiocese, he said, is in a "standby position" and is not "taking ownership or control."

He did not rule out more extensive involvement in the affairs of Covenant House in the future but said any such action would have to be carefully examined.

Covenant House, the nation's largest child welfare agency, served over 25,000 youth in a system of 16 shelters in the United States, Canada and Central America last year.

The cardinal stressed that Covenant House finances are totally independent of the archdiocese. "The archdiocese of New York will have nothing to do with the Covenant House budget or the investigatory procedures," he said. "We're not conducting an investigation."

Expressing confidence in Mr. Pfeiffer and the board, Cardinal O'Connor declared that "Covenant House must not only survive but continue to flourish." He admitted the \$87-million-a-year charity had "suffered very severely and to recover their reputation would be a very difficult job."

Covenant House needs "to be given a reasonable amount of time to try and dig out from under" its problems, Cardinal O'Connor said.

Cardinal O'Connor said he did not know who the archdiocese would recommend to be acting head, but that if it was a priest "his salary will remain as such and be paid by the archdiocese."

Father Ritter has admitted that to forestall criticism of his nearly \$100,000 salary, he had \$60,000 a year from it channeled into the controversial Franciscan Charitable Trust. No funds from the trust had been used for the Covenant House programs for which it was intended, but Father Ritter, his sister and two friends on the board of directors had received loans from it.

The non-profit charitable trust had also not been registered with the state attorney general's office as required, even though in its application for federal tax exempt status it said it was accountable to them.

The New York Times quoted an IRS spokesman March 9 as saying that the trust, set up in 1983, had not filed annual reports with the government. No reports for 1987 and 1988 had been found, said Robert Kobel, adding that willful failure to file was in violation of legal requirements and open to criminal penalties.

The trust was also kept secret from Father Ritter's Franciscan order, after whom it was named, until recently. The Rev. Canice Connors, one of Father Ritter's East coast Franciscan superiors, said the order never authorized the 63-year-old priest to open a trust in the order's name. "We certainly see it as a problem," he told the Times. "I don't know how he pulled it off."

Asked about Father Ritter's salary and the trust fund, Cardinal O'Connor said "an awful lot of this sounds irregular to me."

The Franciscans are presently conducting an investigation of the sexual allegations against Father Ritter and investigators for the order have met with John Melican, one of Father Ritter's four accusers, who was referred to them by Cardinal O'Connor after his meeting with Mr. Melican March 5.

Cardinal O'Connor told reporters, "I have not discussed any of these allegations with Father Ritter. I have left that to his Franciscan superiors."

#### **Faith in Ritter 'unshaken'**

"My faith in Father Ritter is unshaken," said Cardinal O'Connor, adding he had "absolutely no evidence" that would indicate his guilt in the sexual matters.

Auxiliary New York Bishop Emerson Moore and Monsignor James Murray, head of Catholic Charities, and Joan Ganz Cooney, president of Children's Television Workshop, will be part of the search team for a replacement for Father Ritter.

The press conference came in the wake of a report citing a series of problems besetting the charity's New York operation, including disorganization, increased violence and suggestions of discrimination in staffing.

An estimated 80 percent of New York's youth clients are black or Hispanic but according to press reports of the internal document, the majority of low-paid employees "appear" to be minorities while middle and senior management is top-heavy with white personnel. The few minorities on staff "perceived very limited opportunity for advancement," the report said.

The report also said an increase in crack-related violence between clients and attacks on staffers by clients undermined the shelter's secure image among runaways. Conditions at the flagship "Under 21" facility in the Times Square area of New York were rated by law enforcement agencies in the report "as dangerous as a city-run shelter."

"Haphazard" referral practices at the New York shelter and placements in which young runaways are thrown together with hardened street hustlers overnight were criticized.

Mr. Pfeiffer said he had not heard of the report but guaranteed that he would have read it by the end of the day.

The 20-page confidential study was made months before pressure stemming from allegations of sexual and financial wrongdoing which began last December led to the Feb. 27 resignation of Father Ritter and the current crisis.

Since then, two Covenant House officials have resigned in protest, including acting head Frank Macchiarola, who said his plans for an aggressive housecleaning were resisted by a governing board strongly loyal to Father Ritter. Two members of the board and two senior Covenant House officials have also resigned, in the wake of loans made to them from Covenant House funds or from an almost secret charitable trust fund set up by Father Ritter for use by runaway programs only.

Two days prior to the press conference Covenant House officials banned employees from inappropriate associations with clients, including befriending and living with youth who come to the shelter for help. That decree came in the wake of charges that counselors were sexually involved with clients.

The controversial "Safehouse" program in which Kevin Kite, the first of Father Ritter's accusers, was allegedly hidden for eight months from dangerous criminal connections, was also disbanded, officials said.

March 11, 1990

WHY I JOINED COVENANT HOUSE REVIEW GROUP

by Marc H. Tanenbaum

Last week, I agreed to serve on an "oversight committee" on the tangled affairs of Covenant House, the embattled shelter for runaway youths.

The investigation of the financial and related issues will be carried out by former New York City Police Commissioner, Robert McGuire, a man of ability and integrity. The "oversight committee" is headed by William Ellinghaus, former AT-&T president, and consists of Cyrus Vance, former U.S. Secretary of State; Paul Volcker, former Federal Reserve Board chairman, and this commentator. *the Rev. Theodore Hesburgh, former president of Notre Dame University,*

A number of people have since asked me why I got involved in what Cardinal John O'Connor called "this mess."

About seven years ago, I joined with Episcopal Bishop Paul Moore, Catholic Bishop Joseph Sullivan, Baptist Minister Carl Fleminster, among others, in organizing the first major interreligious effort to try to improve the lives of the estimated 35,000 homeless in New York (among them some 2,500 Jewish homeless.) In keeping with that commitment, I visited Covenant House several times in recent years. I wanted to see for myself what could be done constructively to help salvage and rehabilitate homeless and runaway youths.

Given the turbulent lives of many of these young people, Covenant House was not an easy scene. But it was greatly reassuring to see so many dedicated people working responsibly to try to heal these distressed young people.

With all of its unfortunate problems - and clearly there are many - I believe that Covenant House can and must be reorganized and improved for the sake of the thousands of alienated youths.

I joined the "oversight committee" to do what little I can to help advance this decent human purpose.

-----  
Rabbi Tanenbaum, international relations consultant to the American Jewish Committee, is immediate past president of the International Jewish Committee for Interreligious Consultations.

# Rape at Covenant House

## Shelter employee charged in attack on co-worker

By Joseph Kirby  
and Alison Carper

An employee of a Covenant House program was arrested yesterday on charges he raped a young woman at one of the charity's shelters, police said.

Philip James, 23, the head dispatcher and an assistant supervisor of Covenant House's Dove Messenger Service, raped a 19-year-old woman twice in the Dove office on West 17th Street about 5:30 p.m. Wednesday, police said.

James was quoted by police as telling his victim, "I can make things difficult for you if you don't go along with what I want."

The victim also works for the messenger service, which Covenant House created for its own use about five years ago. James is a former resident of the shelter and police gave his address yesterday as 250 W. 21st St.

It was not clear yesterday whether the victim was a resident of the shelter.

The rape charge is the latest problem to strike the embattled Covenant House.

The charity has been under scrutiny since late last year, when former prostitute Kevin Kite, once a shelter resident, charged that Covenant House's founder, the Rev. Bruce Ritter, lured

him into a sexual liaison. Kite said Ritter used charity property and funds as an enticement. In the next two months, four other former residents stepped forward and charged that they too were lured into having sex with Ritter.

Manhattan District Attorney Robert Morgenthau, saying there was insufficient evidence to warrant criminal charges, last week ended an investigation into allegations that funds were misappropriated by Ritter for favors for Kite. Ritter severed all ties with Covenant House the day before Morgenthau made his announcement.

Then, early this week, State Attorney

General Robert Abrams began investigating personal loans from a Covenant House trust fund to members of the charity's board. Abrams said the loans, which Covenant House has not denied it made, could leave those involved in the organization open to civil penalties.

In another development yesterday, Ralph A. Pfeiffer, chairman of the board for Covenant House, announced that the charity hired former city Police Commissioner Robert J. McGuire to conduct an internal investigation into allegations of misconduct and financial

Please see COVENANT on Page 10

10 NY 10 NEWSDAY, SATURDAY, MARCH 10, 1990

## Shelter Worker Charged in Sex Attack

COVENANT from Page 5

impropriety at the charity.

His results will go to a committee whose members will include Cyrus Vance, the former secretary of state; Paul Volcker, former chairman of the Federal Reserve Board; Rabbi Marc Tannenbaum and William Ellinghaus, former president of AT&T.

Cardinal John O'Connor, who has started taking an active role in Covenant House affairs, also announced that he would help find an interim president until a Covenant House

search committee is able to find a permanent replacement for Ritter.

Yesterday, Anne Wilson, a Covenant House spokeswoman, said the rape was "an allegation at this point and that's what we're treating it as.

"We're cooperating fully with police," she said.

At Dove, on the third floor of the shelter on West 17th Street, an employee on duty yesterday said James was known to have difficulties with the women employed there. The employee said James is married, and that he is a demanding but fair boss.

He and other employees in the Dove office were told James was on vacation or taking a sick leave, he said. "I wouldn't have believed he could do something like this," the employee said.

Last week, Frank Macchiarola, the former schools chancellor who was named the charity's acting president last month, resigned after a disagreement with the board and Ritter over how to conduct further reviews of the charity's practices.

Covenant House is the nation's leading shelter for runaway youths, serving 25,000 runaways each year.

MENDING A BROKEN COVENANT

# House keepers in clean sweep

By KEVIN McCOY  
Daily News Staff Writer

In a public act of contrition, Covenant House officials yesterday admitted that they failed to detect the sex and financial scandal that rocked the \$85 million-a-year

charity and announced a sweeping shakeup.

"We're going to have to rebuild Covenant House," said Ralph Pfeiffer, chairman of the board of directors.

Hoping to shore up donor confidence in the internationally known shelter orga-

nization, Covenant House board members announced a shakeup that includes:

- Appointment of a yet-to-be-named priest recommended by Cardinal O'Connor as acting Covenant House president.

The priest will serve for

about six months until a newly named search committee finds a successor for the Rev. Bruce Ritter, who resigned last week amid ongoing state and religious investigations.

O'Connor stressed that the New York Archdiocese would not assume control of Covenant House. But he did not rule out a major church role in the organization if requested by Covenant House directors.

- Creation of a Covenant House oversight committee that includes former Secretary of State Cyrus Vance, Rabbi Marc Tannenbaum and William Ellinghaus, a former president of AT&T.

- An independent investigation of "any and all" allegations involving Covenant House by former city Police Commissioner Robert McGuire.

The probe will be conducted by McGuire's firm, Kroll Associates, and the results will be made public.

- Resignation of Edmund Burns, the Covenant House general counsel who created a nearly \$1 million trust for Ritter that now figures in the state probe.

Reacting to the moves, Ritter's attorney, Stanley Arkin, said: "If it's good for Covenant House in the long run, he's all for it."

The damage control comes three months after former prostitute Kevin Kite rocked the charity by accusing Ritter, its founder, of coercing him into a sexual relationship in exchange for money, a Covenant House apartment and other benefits.

In the weeks since, Covenant House, which provides shelter and other services to 25,000 youths in the United States, Central America and Canada, has been virtually paralyzed while at least four other accusers joined Kite.

### Further problems

In addition, a 1989 Covenant House report detailed yesterday by the Daily News found that the shelter's showpiece crisis housing program has been plagued by crack-fueled violence.

Although Manhattan prosecutors dropped a criminal probe of Ritter and Covenant House without charges, Ritter's Franciscan superiors are continuing an investigation of the sexual misconduct charges.

The priests have so far interviewed at least two of Ritter's accusers and plan to speak with Kite, who met with O'Connor yesterday.

Daily News  
Saturday, March 10, 1990



Robert McGuire





# COVENANT HOUSE

460 WEST 41 STREET, NEW YORK, N.Y. 10036

RALPH A. PFEIFFER, JR.  
CHAIRMAN OF THE BOARD

March 16, 1990

Rabbi Marc H. Tannenbaum  
45 East 89th Street  
New York, New York 10029

Dear Rabbi Tannenbaum,

I want to thank you again for agreeing to serve with the Special Committee for Oversight, as we work to get Covenant House back on track.

Bill Ellinghaus, Chairman, has asked me to confirm the initial meeting of the committee at 8AM on March 26, 1990. A light breakfast will be served.

If you come by car, there is parking in our underground garage. The garage entrance is on 16th Street, just East of 9th Avenue. A security person at the foot of the ramp will assist you. The garage elevator will take you to the 2nd floor.

I look forward to seeing you.

Sincerely,

Ralph A. Pfeiffer, Jr.  
Chairman  
Board of Directors

RAP, Jr./pwk

cc: W. Ellinghaus



# COVENANT HOUSE

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

March 14, 1990

Dear Rabbi Tannenbaum:

I am writing on behalf of the Board of Directors of Covenant House to thank you for your willingness to serve on the Committee of Oversight.

As you know, these have been difficult days for Covenant House. It is imperative that all charges of alleged misconduct in connection with the operations of Covenant House be reviewed thoroughly and aggressively so that Covenant House can direct its full attention to its mission of sheltering and counseling young people who are in need.

We appreciate your advice and support at this critical time in the history of Covenant House.

Respectfully yours,



Ralph A. Pfeiffer, Jr.  
Chairman

Rabbi Marc H. Tannenbaum  
45 East 89th Street  
New York, N.Y. 10128

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## MEMORANDUM FOR THE OVERSIGHT COMMITTEE

# ARCHIVES

Covenant House

July 26, 1990

I have enclosed a new draft of the report of the Child Welfare League that we received today. Please contact me if you have any questions.

Timothy G. Massad

Mr. William Ellinghaus,  
c/o Thomas J. Edwards, Esq.,  
New York Telephone,  
101 Willoughby Street (Room 2300),  
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Reverend Theodore Hesburgh,  
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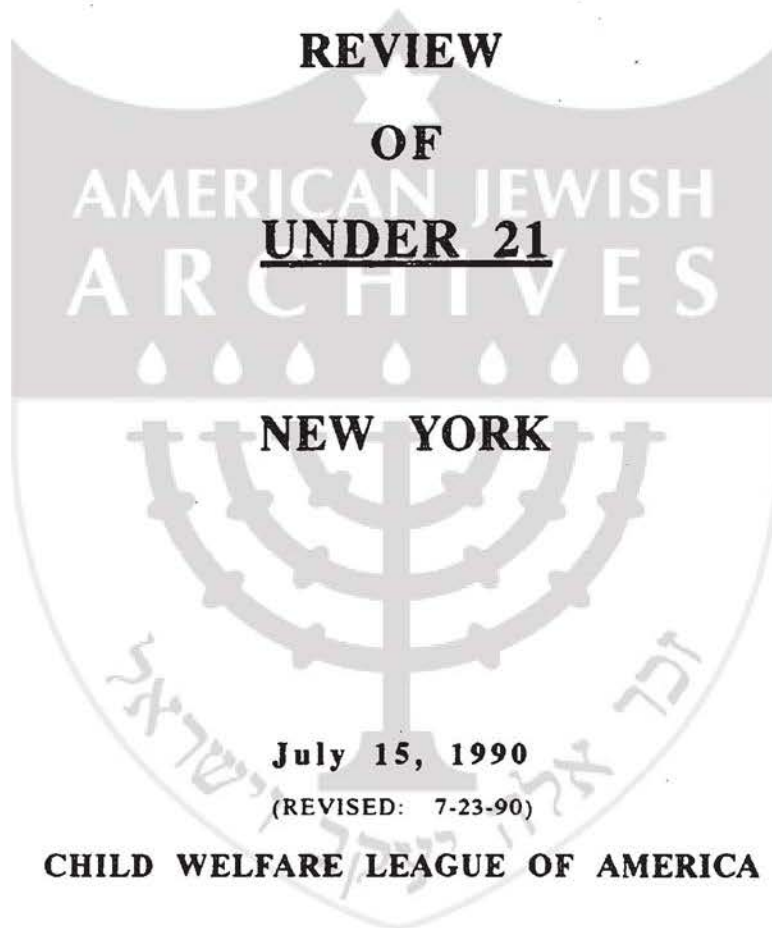
Mr. Paul Volcker,  
Chairman,  
James D. Wolfensohn, Inc.,  
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New York, N.Y. 10022

Encl.

89A



# **COVENANT HOUSE**



**CHILD WELFARE LEAGUE OF AMERICA**

**Robert McKeagney, MSW      Project Director**

**Helen Keys, MSW**

**Michael Petit, MSW**

**Earl Stuck, MA**

**Winifred Wilson, ACSW**

Child Welfare League of America

The Child Welfare League of America is a federation of more than 600 public and voluntary child welfare agencies throughout the United States and Canada. Established in 1920, on recommendations of the first White House Conference on Children, it is internationally recognized for establishing standards of child welfare practice and program management.

The Center for Program Excellence is a division of the Child Welfare League of America created specifically to provide assistance to organizations with responsibilities for services to children, youth, and families. It provides a variety of development, evaluation, and technical assistance services in matters of policy, administration, and direct practice.

The Child Welfare League of America maintains offices in Washington, D.C., Los Angeles, and Toronto.

### Acknowledgements

The Child Welfare League of America would like to acknowledge the cooperation of the volunteers and staff of Covenant House who supported this project through their participation in interviews with project staff and by providing a wide range of pertinent information. Their willingness to share their candid opinions, as well as their knowledge of specific areas of Covenant House operations has been extremely helpful.

Equal appreciation is due to the dozens of people representing public and private agencies and community organizations who spoke at length with members of the project team. Their insights into the needs of young people and the community's experience with the services of the UNDER 21 Program have added considerable depth to the project's understanding of Covenant House.

Particular thanks is extended to the following people who directly supported and enabled the review process to take place:

Joseph Borgo, Executive Director, **UNDER 21**

Stephen Torkelsen, Senior Vice President for External Relations

Mary Sgammato, Director of Community Affairs, **UNDER 21**

Sister Renee Zinciuk, Program Manager, **UNDER 21**

Finally, the project team would like to acknowledge the cooperation and indulgence of the many clients of Covenant House who were willing to be interviewed and observed during the course of this review.

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## Summary

The Covenant House program in New York, known as UNDER 21, is a positive, appropriate response to the compelling needs of homeless youth. It provides a broad range of services to a population with widely varying needs and which, as a rule, is extremely difficult to serve effectively. Given the complexity of the social circumstances surrounding the program and its clients, it currently succeeds in providing constructive and reliable services within an essentially sound framework of policy and practice.

This report has been prepared to summarize the findings of a review of the UNDER 21 program conducted by the Child Welfare League of America. This review has been commissioned by Covenant House as part of a comprehensive response to a series of crises which have brought it to a critical stage in its history as an organization. The following report is designed to provide assistance to Covenant House as it makes decisions about its program priorities for the future.

The principal conclusions reached as a result of this review include the following:

1. The **UNDER 21** Program is generally well-conceived, appropriately structured, and is a sound response to the needs of homeless youth.
2. The needs of the young people served by **UNDER 21** are extremely compelling and, in general, very difficult for communities to address constructively.
3. Members of the community who are familiar with Covenant House and the youth whom it serves place an extraordinarily high value on the services being provided by **UNDER 21**.
4. **UNDER 21** provides services which fill a niche which would otherwise be only partially filled in New York. The City is heavily dependent on the continuing capacity of Covenant House to provide emergency shelter and intervention services to young people.

5. Covenant House is not alone in its response to this group of clients. However, it does appear to be unique in its capacity to:

- accept a wide variety of youth on a generally non-selective basis;
- maintain an exceptionally high volume of client intake; and
- achieve a relatively high level of effectiveness in providing secure shelter and an opportunity for stability.

6. Notwithstanding the generally positive assessment of UNDER 21, there are numerous areas, some of them significant, of relative weakness. These areas need to be addressed in order to assure that the program continues to be an effective resource for its clients.

A predominant image of the Covenant House UNDER 21 Program emerges from this review.

*Highly motivated volunteers and staff have been able to translate their commitment to their own interpretations of the Covenant House "mission" into a positive service despite the lack of clear and consistent organizational direction and support.*

The services provided by the agency have been "good" principally because the people who have provided them have, themselves, been "good", in a sense of both skill and motivation. If the people had been less "good", the results might have been far less positive.

In part, this is what might be expected in any situation where an organization has grown up around a single powerful individual. In such circumstances, organizational capacity is often considered to be less important than individual capacity. However, Covenant House programs have long been too large and complex to have not developed more rigorous internal mechanisms for establishing consistent policy, supervisory practices, and assurances of program accountability. The lack of sufficient internal supports and controls has left most staff people in the position of largely having to define for themselves their expectations of their own performance and the outcomes for their clients. Fortunately, the people who have been attracted to service at Covenant House have provided the basis for a strong system of peer support and positive role modeling as a means of maintaining generally positive standards of performance.

The reasons for the lack of further evolution in some of the necessary organizational supports are somewhat elusive and open to

speculation. However, it is clear that many are related to two major factors:

- many of the individuals included in the client population have recent histories of drug abuse, prostitution, and other seriously self-threatening behaviors; they can be are volatile, complex, and widely varied in their needs; these needs most often appear to require immediate action, resulting in frenetic, short-term outcome oriented activities by staff and volunteers
- the organization has responded to newly perceived needs in an aggressive fashion, establishing a history of continuous, rapid growth during which the establishment of administrative, supervisory, and professional supports has not always kept pace with client service commitments.

It seems likely, had not the recent "crisis" precipitated the series of current self-examinations, that Covenant House would have come to a point of asking itself many of the same critical questions. An important self-critique had been initiated by UNDER 21 through an internal staff review last fall. This analysis would clearly have led to even broader questions for the entire organization if external events had not preempted the process. Even through the course of the Child Welfare League of America review, the project team has been witness to an intense internal discussion of the question of whether or not it is possible for Covenant House to increase the rigor of certain professional and

organizational standards while, simultaneously, maintaining the strong moral and spiritual commitment to the principles of the "covenant" with which it has so strongly identified since its founding. This discussion has been complicated by the not unrelated question about how best to operate the program without Father Bruce Ritter, whose departure from the program has left a vacuum in leadership and direction that has been felt at every level of program operations in New York.

This process has resulted in intense consideration of some of the most fundamental issues of both program and administration, including questions about:

- How should the mission of the agency be interpreted? Is it primarily to provide emergency shelter or does it include more?
- What should be the priority target group? Is it children? Young adults? If it is both, how can they best be effectively served together?
- What is the meaning of Covenant House's traditional commitment to "open intake"? Is this to be implemented literally by accepting all individuals in need of shelter or is it realistically modified by practical considerations of program capacity and capability?

- Do the concepts of emergency shelter, intervention, transitional care, and therapeutic care fit together? Are they mutually exclusive or are they inextricably bound together?
  
- Who is really in control of New York programs? Is it the Board for the local program or is it the Corporate Board? Who should make what decisions?
  
- How should planning for change occur? Should it move quickly or deliberately? What role should staff, at all levels, play in this process?

At this time, these, and many other, questions continue to be under consideration. This means that some of the original purposes of this review can only be partially fulfilled. It is not possible to evaluate the full quality and effectiveness of a program which is in a state of major transition. However, sufficient stability and continuity of programming has existed to support a number of observations and conclusions. Among the most significant are the following:

- It is essential that Covenant House make clear decisions about its expectations for the scope and content of UNDER 21 programs. These should occur with all due



speed. However, it is equally important that they reflect the thinking of an appropriate cross-section of volunteers and staff and that the people who must implement them understand and agree with the expected outcomes.

- The local boards for New York programs should have necessary authority to operate their programs with the same degree of autonomy as is afforded to the programs in other cities.
- Consolidation of the boards and the administration of **UNDER 21 and Rights of Passage** has the potential to improve substantially the operations of Covenant House programs in New York by:
  - creating the opportunity for greater efficiency and effectiveness in administrative operations; and
  - enhancing the local visibility and strength of the New York Board in relation to the Corporate Board.

- The principle of "open intake" is an important element of Covenant House's capacity to serve as a unique resource and should continue to be a central part of its operational philosophy. However, it has not, and cannot, be implemented literally. Therefore, it should not be represented that it is. Rather, it should be clear to all, both inside and outside of the agency, that it is realistically tempered by considerations of:

- individual client behavior;

- the realistic limitations of UNDER 21 and its staff in not being able to respond appropriately to all people, regardless of their needs; and

- physical capacity of the shelter facility.

Covenant House should never turn a young person back to the streets strictly on the basis of available beds. The unique value of its role should be manifested by:

- an "elastic" physical capacity, backed by a flexible staffing capacity; and

- a willingness to connect and place clients in appropriate alternative

programs.

In responding to demands over its usual capacity, **UNDER 21** should clearly recognize the risks to itself and its clients which can result from overcrowding and should be prepared to make maximum use of alternative resources when necessary.

- **UNDER 21** should establish a consistent set of expectations for case planning and case management and apply them within all units. This should include the development of an enhanced capacity to:
  - provide appropriate referral and connection to other programs;
  - maintain aftercare services when appropriate; and
  - provide continuity of case planning and goal setting for those clients who experience multiple admissions to the program.
  
- The administrative structure of **UNDER 21** should be modified, consistent with the general recommendations of the October 1989 staff report to provide more consistent

supervision and lines of accountability at all levels.

- UNDER 21 should continue its efforts to engage its staff in the problem-solving process by responding to legitimate concerns about agency policies, practices, and working conditions.
- Covenant House should enhance its efforts to maintain effective communication and working relationships with community groups and agencies.
- Covenant House must recognize its accountability within the community by conforming to reasonable licensing standards. In turn, regulatory agencies should seek to take full advantage of the unique capabilities of Covenant House by assuring that licensing standards do not inadvertently or arbitrarily prevent it from serving its clients.

Notwithstanding the significance of the multiple areas in which UNDER 21 performance should be improved, the essential character of the program lies in its capacity to respond to those young people who are most urgently in need and, therefore, to be an irreplaceable resource to the City of New York. It has provided a sound model for delivering critically needed services to a population that is otherwise seriously underserved. From the perspective of this review, the probability that it will continue to do so in the future hinges on the ability of its leadership

to make and implement the important decisions it now faces on a timely basis.

Covenant House has demonstrated that it does have the capacity to operate successful programs. It is fortunate to have strong and capable people at its disposal. If it can re-establish its focus on a clear set of goals for itself and its clients it will continue to be successful.



## Introduction and Background

### The Purpose of the Program Review

Covenant House is a non-profit children and youth services organization which operates throughout the United States, Canada, and Central America. Although the programs in various locations have evolved somewhat differently, the central purpose and unifying theme of all has been to provide shelter to children and young adults who for a variety of reasons are without immediate access to suitable housing or support.

Through the years since its founding, Covenant House has earned a reputation as a compassionate and responsive resource for children in need. Despite its sometimes controversial, and even confrontational, methods it has succeeded in establishing itself as one of the largest and most effective programs serving children and young adults. Its widespread recognition and support have enabled it to greatly expand its efforts during a period when many other public and private children's agencies have had difficulty in even maintaining their existing programs. Perhaps its greatest asset has been the general public perception that it was uniquely committed to the selfless pursuit of safety and well-being for a group of young people who could not be helped by the more conventional public and private agencies. Without question, its strong identification with a spirit of moral and ethical commitment to those

whom it served has helped to set it apart in the minds of the many people who have supported its work, not only in an intangible sense, but also through concrete contributions of their time and money.

This unique resource of broad-based public confidence and support has been seriously compromised during recent months by widespread discussion of allegations of personal and financial improprieties by the founder of Covenant House, Father Bruce Ritter. Although Father Ritter is no longer involved in the administration of Covenant House, his overwhelming personal identification with the organization has caused the public allegations to have a profoundly negative affect throughout the agency. This has been particularly true in New York City, where the first program was established and which continues to be the location most commonly associated with the name Covenant House. It is not only the site of the largest and most complex cluster of programs, it is the place most directly affected by the specific allegations.

In an effort to understand the scope of possible problems, to develop appropriate corrective actions, and to allay public concerns about program integrity, the Board of Directors of Covenant House have initiated a series of independent examinations of various aspects of the organization's operations. These reviews will encompass a full range of considerations, including the specific allegations, overall financial management, a variety of administrative and management concerns, and issues of program design and operation.

The Child Welfare League of America was commissioned to conduct a comprehensive review of the direct client services of the core operation of Covenant House in New York, the **UNDER 21** Program. This program is the principal manifestation of both the fundamental mission which lies behind the origins of Covenant House and the logical progression into expanded areas of concern which can take place once direct, concrete care has been provided to the complex, multi-faceted population of young people who are targeted by the agency. The review has confirmed that a multitude of highly charged emotional, philosophical, moral, professional, and practical issues have been encapsulated within the current circumstances affecting **UNDER 21**. Achieving a proper and timely resolution of these issues has become a matter of the utmost importance to the diverse group of people who have been committed to their own individual, as well as shared, visions of Covenant House and the young people it has served. In many respects, the nature of that resolution will serve as a measure of validation of the personal values they have brought to their work with Covenant House.

Therefore, the initiation of the whole series of outside reviews is best viewed, not simply as an attempt to counteract substantial adverse publicity, but as a sincere indication of the willingness of Covenant House to engage in an intensive, critical self-examination. It is clear that the organization is in the midst of the most difficult period of its existence and that it must prepare to adapt to remarkably new circumstances. The leadership of Covenant House is to be commended for its readiness to pose challenging questions to itself and to expect that a constructive, introspective evaluation can occur. In recognition of this, the Child



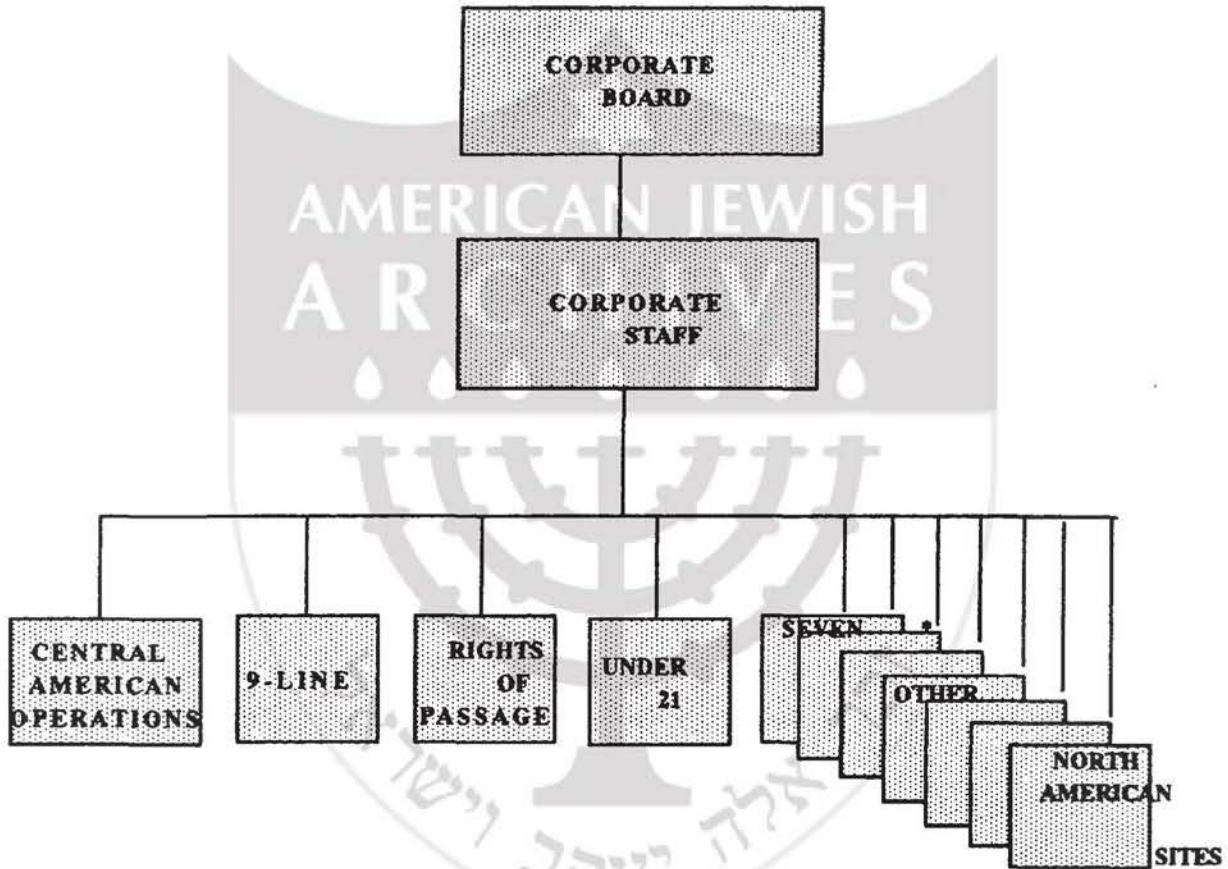
Welfare League of America has undertaken this project with a determination to be sensitive to the difficult circumstances faced by both the staff and volunteers of Covenant House, yet with an equal determination to identify and address real problems in a direct and candid manner.

As would be true of a review of most large organizations, the evaluation has revealed a variety of both positive and negative factors. Covenant House is doing a remarkable job in many areas. In others, there is substantial room for improvement. In this sense, this report has been written from the perspective that problems cannot be solved, or strengths reinforced, if they are not recognized and acknowledged.

### **The Covenant House Network**

Covenant House has adopted a broad perspective on its responsibilities to children and youth. It has been willing and able to establish programs in a variety of locations where it has perceived, on its own, that a need existed or where representatives of the community, itself, have been able to make the case that Covenant House services were required. At the present time, Covenant House operates, or is establishing, programs in the United States, Canada, and Central America. This has resulted in a complex organizational framework which places a "corporate" authority at the center of a multi-national structure for operating programs across a wide geographic area (see Figure I).

**FIGURE I  
COVENANT HOUSE  
CORPORATE STRUCTURE**



Inherent in this structure are continuing questions about the relative authority of the various local "sites" versus that of "Corporate". Throughout the course of this review, this proved to be a constant question in the minds of most Covenant House staff and volunteers.

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\* Until recently an eight site was being actively developed in Washington, D.C.. However, pending

resolution of current budget problems, operations have been suspended.

The programs in each location are firmly identified with Covenant House and share a common commitment to the core mission of providing shelter to young people. Yet, the experiences have been somewhat different and each site has developed in a unique way, assuming a distinct local character. In part, this results from the direct influence of the local people who provide guidance through each site's board of directors. In many respects, however, it is simply a product of the peculiar blend of client need which exists in each area. Given their diversity, it is difficult to characterize these programs in any simple manner. However, for the purposes of this study it is useful to make a cursory comparison between the New York program and those in other North American locations which include the following:

- Anchorage
- Fort Lauderdale
- Houston
- Los Angeles
- New Jersey (Atlantic City and Newark) \*
- New Orleans
- Toronto

Each location operates a cluster of programs centered on a shelter site as the most visible aspect of its fundamental mission to offer young people an

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\* The New Jersey sites are in developmental stages and do not yet operate residential programs alternative to living on the streets. While this clearly ties them to the New York program, they are different in that:

- they are smaller;
- they do not have all of the specialized program components as exist in New York;
- their client populations are composed of a substantially larger share of children under age 18, compared to the young adults who make up such a large proportion of the New York caseload; and
- they operate more autonomously.

A full review of these other sites is outside the scope of this study. However, it has been important to gain a beginning understanding of them for at least two reasons:

- it has been necessary to achieve an understanding and appreciation of the dynamics of the functional relationship between the individual sites and the Covenant House "corporate" authority; and

- some measure of documentation was required in support of the consistently stated belief that *"New York is different"* and that it must be understood within its own unique context as the oldest and largest of the Covenant House sites.

### The Unique Status of New York

The answer to the question, "Is New York different?" is: Yes.

It is different, and lives with the associated advantages and disadvantages of being different, because it is:

- older, more well established, and universally acknowledged as the "flagship" of Covenant House;
- bigger and operates with a larger budget;
- providing care to a larger number of clients, more of whom are adults than in other sites;
- operating with the area of Times Square, a virtually unique location in North America;
- the most visible site for the largest proportion of

**Covenant House contributors and volunteers;**

- located in a city which draws national attention and is the hub of national news media;
- affected in its daily operations by direct Corporate involvement that is not a factor at other sites; and
- most importantly, the place where Father Ritter lived and where he dominated routine decision-making.

For these reasons, it is appropriate to consider the **UNDER 21** Program in New York as unique. There may be many parallels to other site programs, but at this stage in the evolution of Covenant House it clearly exists as the crucible within which most of the fundamental philosophical and practical matters affecting the organization's future will be determined.

## Methodology

The Child Welfare League of America agreed to conduct this review from an objective perspective based in its traditional role as a national organization with standard-setting, evaluation, and technical assistance responsibilities. It was understood that the focus of the review would be on those organizational factors which directly affected the provision of direct care services to the **UNDER 21** client group but that it was not intended to encompass any investigation of the well-publicized allegations of impropriety. These are being reviewed by the Board of Directors through separate arrangements.

The study has concentrated on all aspects of the **UNDER 21** Program, including its relationship with the other New York based Covenant House programs, **Rights of Passage** and **9-LINE**. However, there has not been an attempt to evaluate these separate programs in their own right.

Given the unique nature of **UNDER 21** in both its philosophy and its size, there have been no pre-existing standards to provide a suitable framework for this review. Therefore, CWLA has conducted its evaluation on the basis of a blend of several different sources of appropriate reference points, including:

- the formal policies of Covenant House, itself;

- recognized standards for group and residential child care;
- recognized standards for adult residential care;
- a variety of local, state, and federal regulations, including those embodied in the Runaway and Homeless Youth Act.

It was recognized that some people in the Covenant House organization were initially skeptical about this review. They were concerned that CWLA might adopt an overly "traditional" or "conservative" perspective and would fail to appraise appropriately some of the unique aspects of **UNDER 21**. Of particular concern were those related to its focus on a client group which has already met with substantial failure in the more traditional child care system and which, in fact, is actually composed of as many young adults as minors. Consequently, the League structured a process which was intended to encompass a wide a range of potential viewpoints and to assure that alternative opinions about client needs and program operations could be considered. As a result the evaluation has incorporated an extremely broad based sampling of relevant information, including:

1. Review of all written policies and procedures governing the both the service and administrative operations of **UNDER 21**;
2. Analysis of operating budgets;



3. Analysis of data on client characteristics, program process, and service outcomes;
4. Review of staffing patterns and staff qualifications;
5. On-site observation of all aspects of the twenty-four per day operation of the program;
6. Review of client records;
7. Regular meetings with key administrators at both the corporate and site levels;
8. Interviews and meetings with volunteer members of governing boards;
9. Interviews with the executive directors of other Covenant House programs in North America;
10. Interviews with **UNDER 21** management, supervisory, and front-line staff;
11. Interviews with current and former Covenant House clients;

12. Interviews with a broad cross-section of community representatives, including:
- City officials;
  - State officials;
  - Social service agencies;
  - Law enforcement agencies;
  - Community boards;
  - Other shelter and youth service programs; and
  - Academicians.
13. Review and analysis of the October 1989 report prepared by the UNDER 21 Internal Task Force on Organizational Effectiveness.

### **The Limitations of the Study**

The study has been conducted under circumstances which have made it difficult to draw final and complete conclusions about the quality and scope of Covenant House programs. During the period of the study, the agency has made decisions to implement program modifications which significantly alter the scope and organization of UNDER 21. As this report is being written, additional deliberations are occurring which may

well result in further changes. Among the most significant questions being asked are the following:

- Will the administration of the **UNDER 21** programs be consolidated with that of **Rights of Passage**?
- How will short-term emergency *housing* be balanced with more intensive *crisis intervention* services within the limits of the resources available to Covenant House and **UNDER 21**?

As a consequence of these continuing modifications, the actual programs reviewed in the course of this project will have been substantially changed by the time this report is completed.

This circumstance has proven to be both a severe limitation and a unique opportunity. It has limited the ability of the Child Welfare League of America to state firm conclusions about the current status of Covenant House programs. At the same time, it has provided a rare opportunity to view the response of Covenant House staff and volunteers to the most significant crisis in the organization's history. As a result, while there has been a reduction in the chance to make useful observations about *what* has been being done, there has been a countervailing increase in the potential for gaining useful insights into *how* decisions are made and change is accomplished.

An interesting, and somewhat complicating, aspect of the review process has been a degree of inconsistency within Covenant House about internal responsibility for overseeing the work being done. The initial contacts with CWLA and the original specifications for the review emanated from the Corporate Administration. Subsequently, it was clarified that UNDER 21 was actually commissioning the work to be done and that the League was to be directly accountable to its Board. Since then there have been several stages of evolution in the organization's position about the relative roles to be played by the site and corporate levels. The current lack of clarity is consistent with the continuing deliberation about the ultimate configuration of the administration of New York programs and has served as an immediate "live exercise" in assessing the agency's management capacity.

Therefore, the findings of this study have been developed within the context of a fluid organizational and programmatic framework. Given this circumstance, the conclusions of the review have been based on the premise that the future quality of programs will be reasonably reflected by the two significant factors which can be accurately assessed at this point:

- the past scope and quality of programs and the degree of probability that there will be continuity in many aspects of the agency's direct service capacity; and
- the program knowledge, managerial skill, and leadership capacity of the people associated with Covenant House.

As a result, this study should not be interpreted, nor would it be useful, as a definitive analysis of all aspects of existing programs. Rather, it must be viewed as an assessment of the potential of Covenant House to operate predictably sound programs in the future.



## Section One: The Mission of Covenant House

To an extraordinary extent, the volunteers and staff of **UNDER 21** are consciously committed to the principles they see embodied in the fundamental mission of Covenant House. The concept of the "covenant" itself, which explicitly calls for a very real personal commitment to the young people being served, is understood and accepted by virtually all who play a role in the program. For many, it represents the basic reason that they work at Covenant House. For others, it is the foundation for a valued perception that the organization is a special place to work. Without question, this moral and spiritual aspect of the Covenant House mission has been the source of the organization's greatest internal strength.

The mission statement, supplemented by an important excerpt from an explanatory statement, is quoted below.

*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.*

..... It is quite carefully formulated to express a series of basic convictions.

*Growth toward wholeness and self-acceptance is a process. The process dominates the growth, controls and determines it, and this process can not only be understood but created and structured for maximum effect.*

*The element of the Covenant, the concept and the reality provides the form and specification of the process, determines its nature, and provides its vitality. By Covenant we choose to mean the whole series of structured and unstructured human relationships, on two primary levels: (a) that of love, trust, caring, acceptance and confrontation, and (b) the concrete expression of that love by feeding, sheltering, clothing and protecting our children. Whatever happens to the child at Covenant House must happen within the context of our commitment or the commitment itself is illusory, the Covenant merely a programmatic mechanism, and the therapeutic process sterile.*

*Environment, therefore, as understood here, is that whole series of complex human relationships and interdependencies that arise between us as adults and staff and our children. To say that the environment is human is not to mistrust the many useful contributions that contemporary psychology and psychiatry can make to our program. It is rather to say that programmatically, we see ourselves as providing a humanizing process where the operative principle is process. Namely, it is the process that humanizes, not the program which can merely assist that process, and to a certain extent form it. Programs that provide environments cannot avoid institutionalization. Programs however that evolve and derive from mandated and carefully structured relationships of love, trust, caring and confrontation force both adults and children to remain within the context of that infinitely painful but ultimately therapeutic process. This type of process seems to intrinsically resist institutionalization.*

*The human environment therefore can be seen, and must be, as a covenant process of covenanting - - between ourselves and our children, as both the context and the dynamic within which growth and change can occur.*

*There are certain operative principle -- none of which are particular original - - which derive form the covenanting process, that seem to have been effective. These are the principles of Immediacy, Sanctuary, Value Communication, Structure, and choice.*

The high level of awareness of the importance of this mission has a pervasive effect on all aspects of the administration of the **UNDER 21** Program. A substantial portion of the investment made in the formulation and evaluation of program policies and structure, as well as the daily operation of the program, is directed at assuring consistency with general understanding of the meaning of the mission. Yet, despite this level of commitment, there appears to be considerable room for varying interpretations of how the mission actually translates into concrete action. As a practical matter, it appears to be used in support of a variety of approaches to programming, depending heavily upon the unique perspectives of any given individual.



No where is this clearer than in regard to the most valued policy of Covenant House, the principle of "open intake". The so-called "open door policy" dictates that no young person in need is to be denied shelter, which within the most literal of Covenant House meanings has come to stand for the traditional church-related concept of sanctuary. The prevailing belief is that virtually anyone has a right to admission to the program and that artificial barriers such as licensing standards, availability of beds, or staffing capacity should not be used to exclude people.

This is a commendable principal, particularly when contrasted to the many programs with narrowly defined eligibility criteria which often exclude many of the children and youth with the most serious needs. However, when applied literally it is unworkable. **No program can escape the absolute constraints imposed by:**

- the diverse, and often conflicting, needs of its clients;
- the impact of individual behaviors which are harmful to others; and
- the need to maintain reasonable standards of health and safety within the practical limits of physical space.

In fact, Covenant House recognizes the limitations imposed by these factors and takes actions to control access to the program. It does so, however, by restricting the length of stay or the ability to gain re-entry for many of its clients. This is characterized by some members of the staff as "controlling intake on the 'back-end' instead of 'up-front'".

Individual clients are excluded from **UNDER 21** for a wide range of reasons which result in a "card" being issued to bar them from re-entry to the program for periods ranging from several days to permanently. It is generally believed that the use of such cards will fluctuate in accordance with the program's overall need to relieve pressures associated with the volume or nature of recent intakes. Very few people argue with the necessity of maintaining such a system of controlled access. **However, it is a point of bitter division as to whether or not it is both "dishonest" and inefficient not to acknowledge as part of the initial intake policy that there are certain people for whom Covenant House is not appropriate or that there are times when the agency has little capacity to respond helpfully to new people without "dumping" an equal number of existing clients.** Regardless of the relative merits of either view, it is interesting that the advocates of the purest form of open intake and those who advocate a more selective approach are able to support their positions through reference to the "real" mission of Covenant House.

This reflects a much broader debate about the real nature of **UNDER 21**: *what it should be ; what it should do or not do; and what it should accomplish for its clients.* Answering the simple question, "What is Covenant House in New York?" has proven to be a major part of the challenge of understanding and assessing its administration and operations. Any evaluation presupposes that one can adequately define the nature and scope of the program in question. However, in reviewing **UNDER 21** one is faced with a number of contradictions. Many people view certain aspects of the program quite differently, yet use similar rationales to explain their respective perspectives. Others appear to have similar beliefs about the nature of program elements but explain them on the basis of differing rationales or philosophies. The reconciliation of these views may lie in the simple explanation that Covenant House has often chosen to pursue directions which reflected a broadly pragmatic desire to meet the evolving needs of its clients while attempting to maintain consistent philosophical position that valued a single type of service, shelter, over all others.

Covenant House has historically identified itself as a shelter for runaway and homeless children and youth, and this remains as the core of its self-definition. **However, both the scope of programming and the nature of its clients have changed over the course of its existence.** Because one of the its principal characteristics has been a willingness to develop new program responses as new needs have been perceived, a number of different program configurations have evolved. In

New York, in addition to shelter and outreach services, it also has provided :

- longer term residential care to young mothers and their children;
- home-based after-care services for various clients;
- extended group care for older youth;
- intervention in a specialized unit serving young people with substance abuse problems;
- specialized extended care living for youth who are HIV positive; and
- a major program designed to provide long term living arrangements and even longer term support to young people with specific educational and career goals.

Even within the shelter itself, substantial emphasis is placed on regular, if sporadic, care to a large population which is known as "recidivists" but is really a group of quasi-permanent clients for whom there may literally be no other appropriate service alternatives.

The proliferation of these alternatives to more narrowly defined shelter care raises a question about whether or not Covenant House really defines the principal needs of its target population as emergency shelter.

In fact, even though the need for immediate shelter represents a constant demand, the real emphasis of new programming in recent years has been on the development of more intensive, more long-term options. This phenomenon leads to further speculation. *In identifying itself as an emergency shelter, is Covenant House being more responsive to the preponderance of its client's needs or to emotional and psychological ties to its founding roots?*

Indeed, this basic question is behind the continuing internal deliberations about program direction and focus. For many people, it is essential that the agency retain its elemental commitment to the principles of open intake and sanctuary. Their principle concern is that children and young people not be trapped on the streets. To others, it appears that such a commitment is not only incomplete, but that it may be unrealistic and largely symbolic. For them, the real need is for a program approach which acknowledges that most young people who seek Covenant House services are essentially "dispossessed" and in need of physical and emotional stability as an entry point to a route toward long-term self-sufficiency rather than as a simple respite from the street. In order to understand the current status of Covenant House, it is necessary to understand the full meaning of both the intellectual and emotional aspects of these perceptions.

The varying perspectives on this fundamental question about the nature of the Covenant House mission have been rapidly evolving toward increasingly polarized positions which are now being juxtaposed in the

more pointed question, *"Is Covenant House meant exclusively to be a place of sanctuary or can it also be a site for intervention and treatment programs?"* A powerful underlying issue is being clearly articulated as a question about whether or not it is possible to increase the rigor of certain professional program standards while, simultaneously, maintaining the strong moral and spiritual commitment to the principles of the "covenant."

Obviously, the resolution of this issue is of substantial importance. To be effective, Covenant House must have a clear focus its purpose and goals. The increasing polarization, and over-simplification, of these contrasting perspectives is a troubling development which makes it difficult to maintain this focus. It seems to be driving the organization to a point where a difficult and potentially divisive choice may have to be made. However, one must question whether or not these positions really must be mutually exclusive.

From the outside perspective of the Child Welfare League of America, it appears that Covenant House and UNDER 21 can, and should be able to accomplish both. Otherwise, the organization risks repeating the experience of the many other agencies which have come to *define their clients through their service rather than defining their service through their client's needs.*

Ultimately, the resolution of these differences hinges on the ability of key people to agree about their interpretations of the most important characteristics and the corresponding service needs of the young people who make up the bulk of the Covenant House client group. What seems

most apparent is that this diverse group of children and young adults has many needs, including the need for a place to live, sometimes on an emergency basis. At the same time, virtually every one of them has a long term need for stability and the means to establish their own independence and self-sufficiency free of the victimization of the streets. For some, this simply means gaining access to the appropriate opportunity. For others, it will require more assertive and structured support from people who know how to enable others to bring about personal change under difficult emotional and environmental circumstances.

Regardless of the depth of their individual needs, however, it is clear all clients present themselves at Covenant House with a cluster of concrete problems to which someone must respond. This is the fundamental challenge which Covenant House seems most prepared to accept. Whether the need is simply for short-term shelter or for substantial therapeutic intervention, **UNDER 21** should have the capacity to respond appropriately either through its own programming or by providing access, through reliable linkages, to another suitable resources.

A request for admission to Covenant House is an overt act of asking for help and, at least momentarily, represents an individual desire for change. Covenant House should be prepared to recognize that request as an opportunity for positive intervention as well as an expression of need for shelter. To the extent that its principle role will be to provide shelter, it must have reliable connections with other programs in order to assure that its clients receive a full response to their needs. Alternatively, if it expects to respond itself to a wider range of needs, it should acknowledge

this broader commitment by clearly incorporating a balanced continuum of shelter services, structured intervention programs, and transitional living within its formal statement of its mission.





## Section Two: The Clients of UNDER 21

Covenant House has established a national reputation for serving runaways and homeless youth. The images of young people seeking shelter and guidance have become part of the conscious identification of many people with the problems both of family breakdown and survival in large cities. In most instances, these images reflect only a partial picture of the actual client population served by UNDER 21 in New York. For most people, it is difficult to appreciate the true depth of problems and adversity faced by these young people. Yet, to understand much of the real meaning of Covenant House to its own volunteers and staff, it is necessary to understand the nature of the challenge they face everyday.

For some people, Covenant House has been represented by runaways. For others, it has meant a focus on young people who have been long-time clients of the social service system and who are considered by many to have been the "failures" or "rejects" of those systems. Many of those in the latter group have become too old for conventional child-caring systems but are not yet able to live by conventional means as self-sufficient adults. Indeed, many of them are truly "dispossessed", individuals who have never really known an effective family life or had access to stable living arrangements.

Covenant House has had to respond to each of these groups of people and has had to cope with issues of abuse and neglect, substance abuse, mental illness, inadequate education, lack of housing, poverty, crime, prostitution, and broad range of related problems. Perhaps the best way to communicate some of these crucial facts is to quote several excerpts from a recent paper written by the research staff at UNDER 21.\* These statements reflect their findings from a detailed survey of current and former Covenant House residents.

*The mean age . . . was 19 years and ranged from 14 to 21 years. Slightly less than three-quarters (73%) were males. The ethnic breakdown was 56% Black, 14% White, 26% Hispanic and 4% Other. Only 18% of the respondents were found to be attending high school. Seventy-three percent had never completed High School and one-third of these, 25% of the sample, had never gone beyond ninth grade.*

*Sixty-two percent . . . had been born in New York City. Only 2% were from other parts of New York State, while 20% were from other parts of the US. Ten percent were from Puerto Rico, The Dominican Republic or the other Caribbean countries, and 5% were from Latin America or Europe.*

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\* Margetson, Neil and Lipman, Cynthia; Children at Risk: The Impact of Poverty, the Family and the Street on Homeless and Runaway Youth in New York City; Paper delivered at the National Symposium on Youth Victimization; Atlanta, Georgia; April 27, 1990.

*More than one-quarter (27%) . . . had at least one child (28% of these had more than one.) Twenty-eight percent . . . reported that the children were living with the other parent ( usually the mother), 5% were in foster care and the remainder with other relatives.*

*Twenty -four percent . . . were raised by someone other than their natural parents. Thirty-three percent had been raised in single-parent household, and an additional 25% had one parent leave or die before they were 13 years old. Twenty-four percent reported that at the present time one or both parents were dead; of these 39% stated that the deaths were a result of a drug overdose, violence or suicide. The average number of children in the household was found to be 3.9 with a maximum of 17. Forty-five percent were from long-term public assistance households. Twenty- seven percent of the respondents had spent time with foster families and 43% had spent time in foster-care group homes. By way of contrast only 9% had ever been adopted.*

*The average length of time away from home was 90 weeks, however, the average length of time since the last contact with family was far less, 21 weeks, and it was not uncommon to find that individuals had spoken to their families during the previous week.*

*. . . 26% reported having been pushed out (of their homes) by their parent, and 28% left because of physical violence, extreme emotional abuse, sexual abuse or parental substance abuse. Thirteen percent were homeless because their parents had died or become homeless, because they had aged out of the*

*foster-care system, been discharged from an institution, or because they had been evicted from an independently-rented apartment. In addition 17% cited a 'desire for independence'. When pressed those in this latter group referred to 'family conflict' as the primary motivation for having left home. Less than one-third said that they could imagine any circumstances under which they would go back home.*

*While 60% of . . . had been living in an apartment immediately prior to their arrival at Covenant House, only about one-third of these, 22% of the sample, had been living with their parents.*

*Eighty percent . . . reported using alcohol, making it by far the most widely used substance (after tobacco used by 86%). Sixty-eight percent reported marijuana use; 46% reported cocaine use and 38% crack use. While these were the predominant substances of choice, sizeable minorities reported experimenting with PCP (19%), heroin (12%), prescription drugs (14%), and inhalants (11%).*

*Over 90% . . . reported being sexually active. Seventy-seven percent stated a preference for opposite-sex partners and 15% stated a preference for same- or either-sex partners. Thirty percent reported that they always used condoms, while 44% reported using condoms and 18% never. Girls were more likely to report no condom use. The average number of partners weekly was 2.8 and ranged from a low of 1 to a high of 20. The monthly average was 7.8 with a low of 1 and a high of 80. Twenty-nine percent . . . admitted to having sex for 'food, money, shelter or drugs'.*

*An ongoing study of HIV sero-prevalence rate among Covenant House residents has shown a population-wide sero-prevalence rate of just over 7%.*

*Sixty-two percent . . . reported having been arrested at least once, but most reported multiple arrests and 8% reported prostitution-related arrests. Thirty-three percent reported having ever been convicted of a misdemeanor and 18% of a felony. Twenty-one percent had been at some time incarcerated as a juvenile and 29% as an adult.*

*Only 27% . . . said that they felt their health was excellent, while 28% said that their health was either poor or fair.*

*Forty-six percent . . . reported having had outpatient treatment for psychiatric problems and 18% had at some time been in a psychiatric hospital or ward, on the average within the last eighteen months.*

What is not apparent from the information contained in these excerpts is a sense of how dependent many of these young people actually are on **UNDER 21**. A review of re-entry statistics demonstrates that a substantial number of them spend a great deal of time in residence at West 41st Street. For this group, **UNDER 21** is closer to a long term residence than an emergency shelter. This is particularly true for older minority youth.

The situation is made clear by a relatively few facts from 1989.

- The percentage distribution of young people who were admitted to the shelter one time during the year.

- By age:

under age 18	44%
over age 18	56%

- By minority status:

Black and Hispanic	84%
Other	16%

- The percentage distribution of young people who were admitted to the shelter three or more times during the year.

- By age:

under age 18	24%
over age 18	76%

- By minority status:

Black and Hispanic	91%
Other	9%

Just over 30% of the individuals who were admitted to the Shelter returned for 3 or more times (up to 28 times) during 1989. Obviously, the older and minority youth were disproportionately represented in this group. It is even more interesting to contrast the average lengths of stay of each group.

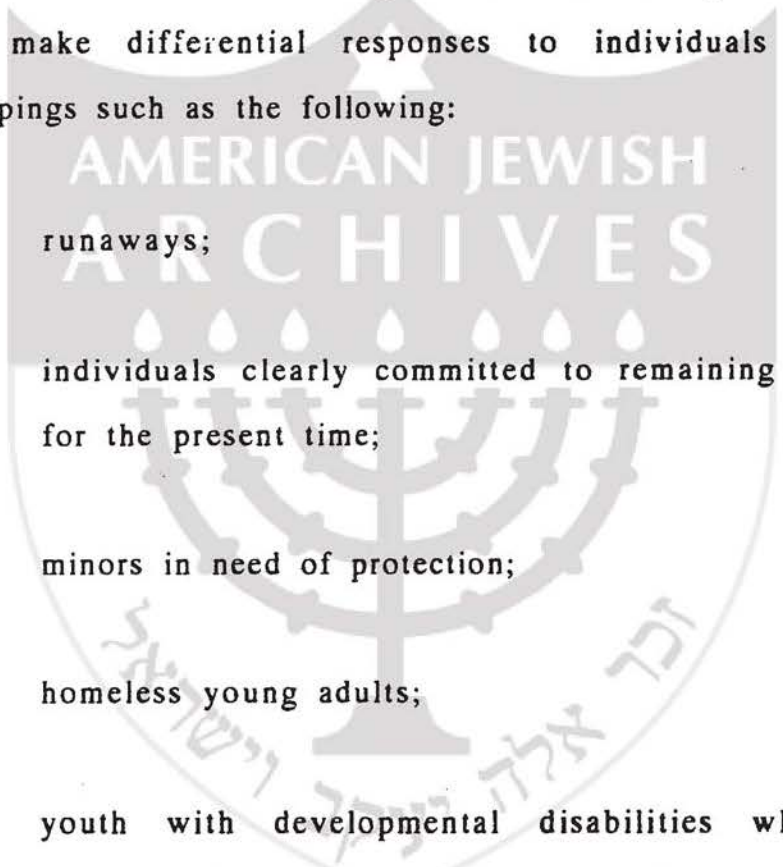
Number of Admissions:	Length of stay
<u>1989</u>	<u>per Admission</u>
1 admission	less than 1 week
3 or more admissions	more than 4 weeks

This means that the average amount of time spent in residence by the group with three or more admissions was approximately three months per individual during 1989. Obviously, some were there a great deal longer than that. **It is clear that this group needs a program that has a longer range focus than is normally the case with emergency shelters.**

The overall picture which emerges of Covenant House clients is of a group of young people who have experienced substantial deprivation and who have compounded its effects through their own self-destructive behavior. It appears, in the majority of instances, that this behavior is well-established. Clearly, Covenant House is meeting a major challenge by merely providing safe, secure shelter to this group. However, it is

equally clear that many of these young people are ready for more than shelter and that the further challenge is to be able to respond in greater depth over an extended period of time. It is obviously important to be able to identify these individuals and to respond to them.

Historically, Covenant House has responded in the same general way to most of its clients. At this point, it should begin to increase its capacity to make differential responses to individuals within broad informal groupings such as the following:

- 
- runaways;
  - individuals clearly committed to remaining on the street for the present time;
  - minors in need of protection;
  - homeless young adults;
  - youth with developmental disabilities who have lost eligibility for certain services by turning age 18;
  - young mothers or fathers with responsibilities for care of their own children;
  - youth with a principal problem of substance abuse;



- youth with special health problems, including those who are HIV positive;
- gay and lesbian youth;
- undocumented aliens; and
- youth who are ready to work toward independence and self-sufficiency.

Ultimately, it is a case of truly understanding who Covenant clients really are and what the role of **UNDER 21** should be. It is particularly important to be able to be able to make the distinction between young people who need to use the agency as a means of access into a broader helping system and those who have already been rejected by that system and are now in need of concrete alternative services. To accomplish this, **UNDER 21** needs to be able to engage in a process of assessment, goal-setting, and case management which supports the entry of its clients into longer term programs, either under its own sponsorship or that of other agencies.

### Section Three: The UNDER 21 Program

**UNDER 21** is the direct descendent of the original Covenant House. However, it has not only grown larger over the years, but far more complex. In addition to the necessary development of a full range of administrative support functions, it has incorporated a diversified set of programs which give it a character more similar to a multi-function social service agency than to the typical emergency shelter. Although the provision of crisis services through the shelter still clearly dominates the life of the agency, substantial amounts of time and money have been devoted to these other program activities.

There are two ways in which **UNDER 21** can be described:

- by its principal organizational units; or
- by its major functions.

An attempt to focus on organizational units leads one through a series of "apples and oranges" comparisons that is informative but not necessarily

helpful in understanding the organization as a whole. Using this approach, one would start with a list somewhat like the one that follows:

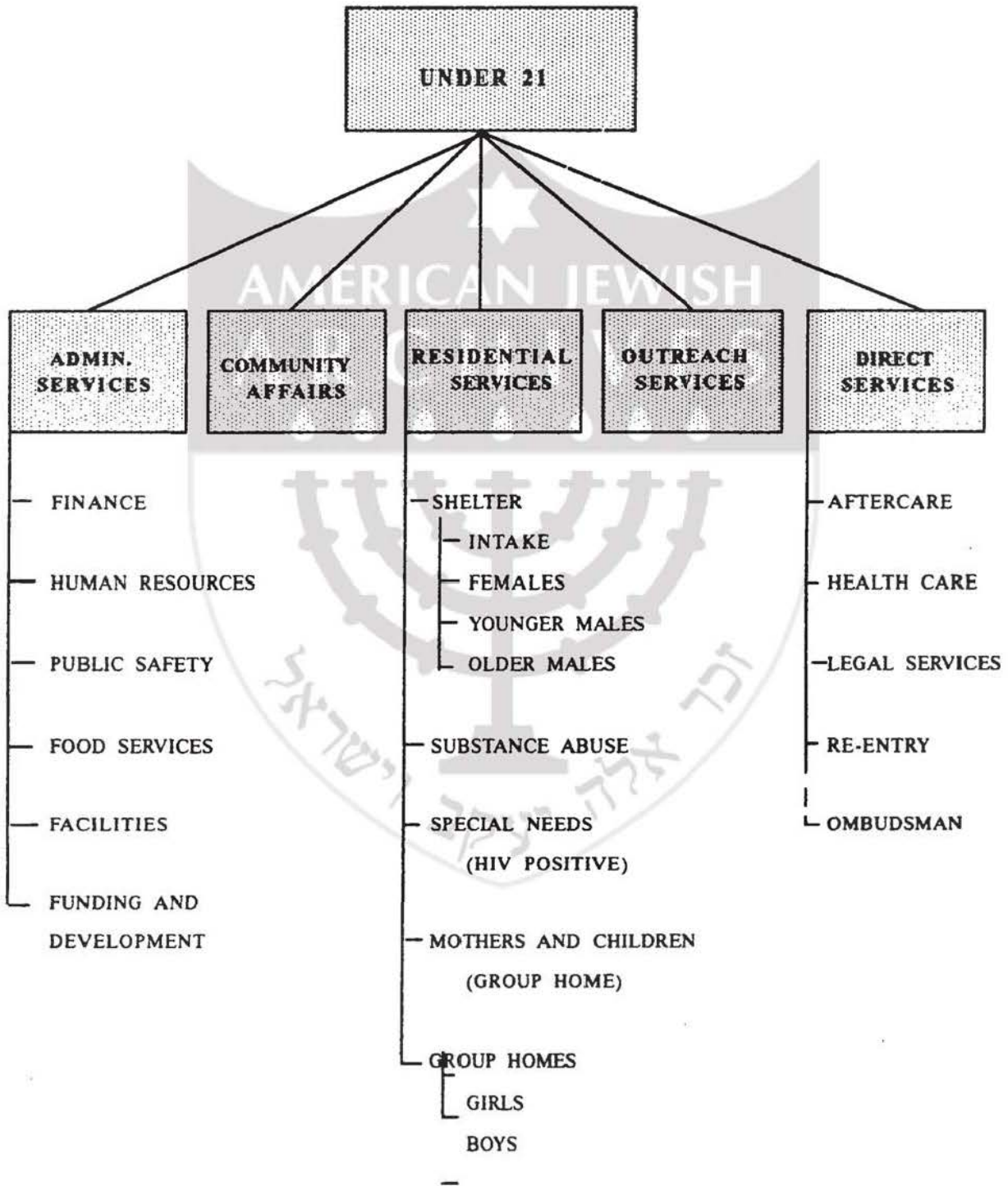
- Program
- Aftercare
- Support Services
- Community Affairs
- Funding and Development
- Legal
- Off the Streets
- Finance
- Health Services

Categorizing the various parts of the agency by their common functional purpose is more helpful in obtaining an insight into the true organization of the resources and staff. Using this type of framework, one begins with the following major categories of activities:

- Outreach
- Residential Services
- Direct Services
- Community Services
- Administrative Services

This approach to describing UNDER 21 is represented in Figure II.

**FIGURE II  
UNDER 21  
MAJOR FUNCTIONS**



The recent program reductions necessitated by revenue losses have resulted in the scaling back, or the outright loss, of some of these organizational elements. Nevertheless, **UNDER 21** continues to be responsible for managing the five broad functions identified above.

The approach to organizing and managing these functions has varied somewhat over time. However, the principle method has been to place primary responsibility in the hands of program, division, or unit directors who have had substantial individual discretion in their particular operation. This has provided the organization with the opportunity for creativeness and flexibility but has also resulted in relatively little inter-unit coordination or consistency. This circumstance was recognized in the October 1989 internal report of the Task Force on Organizational Effectiveness and prompted several recommendations designed to improve management coordination. Although most of these recommendations have not yet been implemented, actions have been taken in the intervening months to begin strengthening the capacity of **UNDER 21** management staff to operate a more fully integrated set of programs.

Several of these management issues will be discussed in the following section. However, this discussion will be more useful after a number of observations are made about the various administrative and program functions being carried out by **UNDER 21**.

## Outreach

The **UNDER 21** outreach program, known as **Off the Streets**, has been a highly visible symbol of the Covenant House presence in New York for years. It serves two principal purposes:

1. it is an access point for shelter services for young people on the streets; and
2. it provides food, short-term counseling, and referral services to a number of youth who, for a variety of reasons, will probably not use shelter services.

The staff of the program use vans to make nightly rounds of the areas frequented by young people. They make themselves available for contact with individuals who may be seeking assistance. At the same time, they maintain contact and "check up" on some of those youth who have little other contact with any parts of the formal helping system. For this latter group, the outreach program may be the principal contact with any entity apart from their "street life".

Off the Streets has been criticized by some as having been designed primarily for its "public relations" value. The vans do represent a high profile reminder of the Covenant House presence throughout New York. At the same time, it does not appear the program, either on its own or through **9-LINE**, is a major source of referrals to the shelter. Some people also contend that other agencies are able to provide this same type of "street-oriented" service and that Covenant House would be better off

concentrating its resources on the actual provision of shelter.

The principal stated goal of this program of actually moving people "off the streets", does not seem to be a major outcome. While some young people do use it as a means of access to the shelter, they constitute a relatively modest number. **UNDER 21** may actually achieve a higher level of conventional outreach by focusing its attention on maintaining a more effective information and referral system with other social service agencies.

Nevertheless, the program appears to be well-run and is generally effective in maintaining a street-based network of actual and potential support for a group of seriously disturbed and alienated young people. This outcome is of considerable value in its own right, making the service is worth continuing.

### **Residential Services**

The popular connotation of Covenant House, particularly as represented by **UNDER 21**, is as an emergency shelter. This is not necessarily an inaccurate perception. However, as has already been discussed, it is a substantially incomplete view. A considerable share of the agency's resources support equally legitimate needs for more active and extended intervention programs. It is a powerful measure of the importance of "emergency shelter" as the embodiment of the Covenant

House mission that even a great many staff members do not acknowledge this well-established fact.

In some situations, this may not make a great deal of difference. However, when considered within the context of a social organization which must plan and manage *change* with a large and diverse group of clients, it can be a significant handicap. **The application of the wrong conceptual framework to any problem will leave one with, not only an inadequately defined problem, but the wrong solution to that problem.** Unless the right questions are asked, the right answers are not likely to be forthcoming.

In the case of **UNDER 21**, the question, "How does one provide the best emergency shelter?" is incomplete. The real question, the one which reflects the real activities of the agency is:

*" How does one provide the best residential programs, including emergency shelter, to achieve positive change and stability for young people who are used to neither?"*

This is a far more complex question and it demands a more complex answer than has thus far been provided in the Covenant House approach to managing its services to the main body of its clients.

This fundamental problem may well be at the root of the organization's consistent practice of developing more structured sub-



programs such as **Rights of Passage**, the **Mother and Child Program**, and the **Substance Abuse Unit**. In each instance, a planned and goal-oriented approach to individual change has become the central component of the program. It should also be at the core of a more structured and consistent case management system for the emergency shelter.

### Emergency Shelter

**UNDER 21** emergency shelter beds are located within five different units:

- Two intake and assessment units:
  - one for boys
  - one for girls
- Three regular units:
  - one for girls
  - one for younger boys
  - one for older boys.

Each of these units is organized and managed quite differently, depending upon the style and professional orientation of the unit leader. This has been a source of considerable frustration for both staff and clients who have come to expect that rules and expectations will vary from place to place within the Shelter. For the purposes of this study, the actual

variations are less important than the acknowledgement of their existence. One of the principal actions which must be taken in the immediate future is to develop a consistent set of expectations about the management of the individual units and the cases of the clients assigned to them.

As an alternative to viewing the Emergency Shelter as being composed of units, it may be helpful to conceptualize it as encompassing three major responsibilities:

- 
- intake and assessment;
  - case planning and management; and
  - referral and aftercare.

Where each of these responsibilities are carried out is less important than *how* they are completed. Within this framework, there should be a clear recognition that each individual is *coming* from somewhere and that he or she is also *going* somewhere. This creates a purpose for the program of *intervening* to enable clients to recognize that *even though they may have had little control over where they have been, that they do have the power to control where they are going.* While the value of shelter in its own right should not be underestimated, it will be of limited value if it does not serve as a *bridge* to a more permanent and secure environment.

Admittedly, many of the young people who use shelter services are not ready, or do not want, to make significant changes in their lives. They will return to the same circumstances they left to come to the Shelter and will likely seek readmission at some point in the future. For this group, a shelter stay clearly does not provide the bridge to that more secure environment. This is why **UNDER 21 must have the capacity to provide effective referral services and aftercare if continuity in planning and goal-setting is to be achieved for those individuals who will return for subsequent stays.**

For this reason, Covenant House not only has to provide the continuum of services that it has been evolving through its generation of programs such as **Rights of Passage** and the Aftercare Program for mothers and their children, it also must provide continuity of service for those individuals who have not yet focused on realistic goals and who will, consequently, experience multiple admissions to the Shelter. To do so, it will have to achieve a higher degree of structure and consistency in its approach to case planning and case management for its emergency shelter clients.

The single most important element of a *more* effective case planning system will be to develop an enhanced capacity to involve individual clients in the actual formulation of their own plans. The review team observed the case review and planning process in several units. The focus was consistently on staff expectations rather than on the goals of the young people in question. It was not at all clear how these expectations were being translated to clients or how individuals were expected to

internalize them. When one recognizes that the substantial majority of these people are adults and, as such, fully responsible for their own actions, this becomes an extremely important question.

Achieving appropriate change when working with virtually any group of people is a direct product of the degree to which the objectives for change are *immediately* relevant to them. This requires a program capacity to be sensitive and responsive to individual differences and needs. This is nowhere more important than it is in working with the young people served by **UNDER 21**. Not only do they span a wide range of ages and socio-economic backgrounds, they encompass a microcosm of the cultural, ethnic, and religious groups to be found in New York. It is clear that Covenant House faces a special challenge in being able to understand these differences and to respond appropriately to them. It will be better able to do so in an environment which both respects individual differences and values a process which builds upon them. The most effective case plans will be personally and culturally relevant, not only to staff but to the clients themselves. Those individuals who believe that the case plan is truly their own will be more likely to take them seriously and, in turn, to be successful in achieving their objectives.

It is recognized that **UNDER 21** does have to maintain firm expectations of its clients and that it may be required to be highly directive with some. Nevertheless, the absolute key to success is to assure that case plans are focused on goals which actually originate with the individual client. Without a clear investment in longer term goals by the clients themselves, continuity in case planning will not be possible.

To be effective, **UNDER 21** must maintain the staff capacity to develop such client-directed plans while simultaneously assuring that they are realistic. Therefore, its case management system must be structured to enable skilled staff to:

- interact regularly and intensively with clients;
- carry out a role of providing perspective and, where necessary, direction to the young people for whom they have responsibility; and, yet
- retain the capacity to enable each youth to make his or her own choice about plans and actions.

Under even the best of circumstances, providing consistent care within the environment of a large shelter is difficult. **Under 21**, through its own October 1989 report of the Task Force on Organizational Change, has acknowledged that there have been past problems associated with some clients posing physical and psychological threats to both staff and other residents. Improving this situation has been a priority of the agency's administration over the last several months. Actions have been taken to exclude certain clients who have engaged in threatening behavior. Program staff and the Ombudsman have worked together to achieve more consistent application of the "card" system to violations of rules related to violence or threatening. The project team has been impressed by the degree of order and civility which has existed in all units during the course of the review. The value of this achievement should not be

minimized. When all else has been considered, the most important aspect of shelter is still is to maintain a safe and secure environment. This is a prerequisite for allowing individuals sufficient psychological freedom to relax and to make a serious investment in promoting permanent change for themselves. The **UNDER 21** staff has done a commendable job in achieving this.

In recognition of the importance of both the above accomplishment and other efforts toward change that are currently underway, the review team is reluctant to appear to be too critical. However, there are a number of other observations about the unit process and environment which should be made.

- Written case records are inadequate. They do not reflect detailed or well thought out case goals and do not provide the basis for appropriate measurement of client progress.
- The "card" system continues to be applied inconsistently among units and among staff within the same unit.
- The current intake and assessment process often takes too long, during which time individual clients are without adequate support or programming. Immediate alternatives to "hanging around" the unit should be developed.

- An improved system of tracking clients during a stay in the shelter and at re-entry should be developed. It is not uncommon for the same client to be re-admitted under several names and for duplicate or conflicting case plans to be developed.
- Supervision of front-line staff is not consistent. Individual staff people are often left to develop their own approaches to clients. While many of these may be appropriate, they are beyond the immediate control of the agency.
- The roles of various professional and paraprofessional positions within the units should be clarified and standardized. This does not mean that people should be forced into narrowly defined categories of behavior or responsibility. However, action does need to be taken to assure that respective roles and lines of authority are fully understood by both staff and clients.

### Specialized Units

UNDER 21 has been operating a number of specialized units offering an expanded range of longer term services to young people who have indicated a willingness to deal substantively with the significant problems in their lives. Some of these services have been offered at the West 41st

Street facility but the larger number have been being provided through a growing network of other facilities located throughout the city. Unfortunately, as part of the current program reductions most, if not all, of these satellite locations will be closed. Simultaneously, decisions are being made to discontinue some of the services while trying to transfer the remainder to West 41st Street. In each instance, the history and current experience is helpful in further understanding the overall philosophy and operational style of Covenant House.

#### Special Needs Unit

Action has already been taken to eliminate the "Special Needs Unit" which had been established to provide extended residential services to youth who are HIV infected. However, the experience with this unit serves as a good example of the way in which Covenant House has used its relatively plentiful resources to solve problems. The unit had been created in recognition of the extreme difficulty that this population would have in obtaining stable, supportive living arrangements elsewhere. Staff people had learned this through direct experience; they had little success in making follow-up arrangements. The response to this problem, "we'll do it ourselves" was typical of the Covenant House approach. As a need was identified the most immediately effective way to meet it was to create a new Covenant House service rather than to attempt to negotiate with what was perceived as an unresponsive external system.



In many respects, this represents a commendable willingness to take assertive action and to solve problems which others might not. On the other hand, it has tended to lead Covenant House in diverse directions, sometimes before it has fully appreciated the implications or new burdens associated with these initiatives. It also has reinforced the perceptions of many people outside of Covenant House that the agency was arrogant and unwilling to work in a cooperative fashion with others who might share their concerns.

#### Substance Abuse Unit

The Substance Abuse Unit was created in much the same way as Special Needs. It represented a self-contained response to a need which was not being adequately met through existing resources. However, there are some significant differences in the approach that has been taken. The most significant are:

- the recognition that substance abuse was a major problem for a majority of Covenant House clients and that it was simply not possible to achieve success with the primary target group without an effective means of dealing with the issue;
- the decision to work with the larger substance abuse treatment system by not creating a duplicate of other treatment programs but by emphasizing instead a more

short-term program of education and awareness designed to prepare clients to move successfully into already existing long-term treatment programs elsewhere; and

- the choice of a program director who already had direct experience in New York's substance abuse treatment system and who was able to bring not only concrete program knowledge but also an existing network of cooperative relationships.

To the outside observer, the Substance Abuse Unit appears to be the most well organized of the units at West 41st Street. In contrast to the other units, there is a structured daily program and a far more consistent sense of individual goal setting. There is a clear emphasis on individual recognition of responsibility for change and on the role of the program as a means of transition to another setting. This creates a more purposeful atmosphere on the floor and encourages the creation on clear *beginnings* and *endings* to the process. Even though the period of time an individual will spend in the substance abuse unit is limited, this structure helps to avoid the feeling of impermanence and drift that is evident in the crisis units.

It appears that the approach being used in the Substance Abuse Unit could be adapted to good benefit in others areas of the **UNDER 21** Program.

## Mother and Child Program

The Mother and Child Program, like the Substance Abuse Unit, represents a strong pragmatic approach to a problem that is unavoidable for any organization dealing with young people. Pregnancy and motherhood are realities for a high percentage of the young women who seek Covenant House services. They also are substantial barriers to their eventual ability to be self-sufficient and economically independent. For many, however, the initial challenge is simply to regulate their lives and to assure that their children receive proper care.

**UNDER 21** has created a sound program which emphasizes the establishment of fundamental lifeskills while also providing support for the development of the longer term means to gain access to educational and vocational skills. The program, as is the case with many components of Covenant House, is also distinguished by its extensive and excellent use of volunteers.

The Mother and Child Program has developed a sound case planning and management style that would serve as a good model for other Covenant House units. It is achieving a relatively high level of continuity with its clients by providing an integrated package of services over an extended period of time, including the time after a mother has left the group facility. Two aspects of its programming have particular potential for replication elsewhere:

- Aftercare

This program makes the Mother and Child Program the only component of Covenant House with a formal capacity to provide continuing and consistent service regardless of the living arrangement of the client. It clearly recognizes that permanent change takes time and, more importantly, that the young people it serves sometimes need structure and support during that time.

- Health Services

The UNDER 21 Health Clinic plays a broad role in relation to all programs. However, it is particularly important to the success of the Mother and Child Program for two reasons: it provides concrete services which are of clear value to the recipients; and it provides them within the context of a broad case plan which requires continuity by the agency and follow-through by the client. Even though the clinic has been providing continuing care to some other former residents, the clients of the Mother and Child Program are the only ones who receive such care as part of a structured plan for which the agency accepts responsibility along with the individual.

The only area of significant concern for the review team in assessing the Mother and Child Program is speculative. Tentative plans exist for the program to be moved to either West 41st Street or to West 17th Street as a part of the changes being made to accommodate the current revenue losses. While such a change may be unavoidable, it is

questionable if the program can be operated with the same degree of success in a location where a variety of other clients, with somewhat different needs, are also in residence.

The overall success of the Mother and Child Program indicates that there is substantial potential for application of some the same principals of extended case planning and management to other Covenant House program areas. In addition, it would be of considerable benefit to programs throughout the country to be able to learn more about the Mother and Child Program. In the view of the project team, it serves as an excellent model for replication elsewhere.

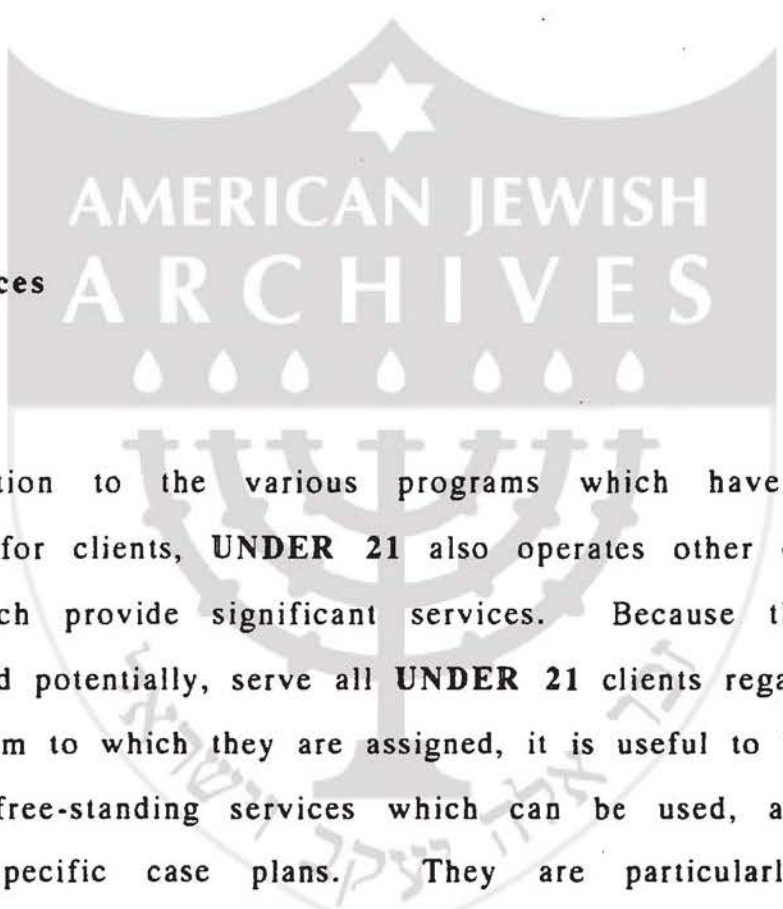
#### Other Group Homes

It appears that the other two satellite group homes will be closed as part of the current budget reduction. These facilities have provided **UNDER 21** with an important source of flexibility. They have:

- been an alternative living arrangement for some young people for whom the atmosphere of at West 41st Street was too intense; and
- provided more appropriate options for clients in need of longer term residence.

Consideration is being given to trying to re-establish some of the elements of the group programs at West 41st Street. However, it appears that most of the benefits of the programs operated from these facilities will be lost.

### Direct Services



In addition to the various programs which have direct care responsibility for clients, UNDER 21 also operates other direct service functions which provide significant services. Because they currently serve, or could potentially, serve all UNDER 21 clients regardless of the specific program to which they are assigned, it is useful to think of them as separate, free-standing services which can be used, as needed, in support of specific case plans. They are particularly useful as components of "continuing service" to clients who are no longer in residence but who may still be in need of assistance until they have successfully been connected with other supportive resources.

## Aftercare

Aftercare has already been discussed in the context of the Mother and Child Program which has been its predominant focus over the years and, with budget reductions, will be its only focus for the foreseeable future. However, it has been used to provide services to other groups at various points in the past. This serves to underscore its clear potential as a resource for a wider range of clients. It should either be expanded or used as a model to create a comparable capacity to serve all clients who leave the shelter with continuing case goals.

## Legal Services

Legal Services is one of the most heavily used components of the UNDER 21 Program, both by current and former residents. In part, this is because many of the agency's clients have legitimate legal issues to resolve. It also is a product of the perception that the department represents a source of independent advocacy and intervention with a variety of other community institutions and agencies. It is interesting that outside people who have contact with Covenant House clients identify the lawyers of this unit as the representatives of the agency, other than administrators, with whom they have the most contact. Generally, these people perceive them to be effective on behalf of their clients and helpful to the other agencies with which they work. The combination of internal demand for this service and the outside appreciation of the contact it generates, reinforces the opinion of the review team that a substantially

greater investment should be made in community oriented case management and aftercare as an integral part of the **UNDER 21** program structure.

### Health Clinic

The **UNDER 21** Health Clinic is one of the strongest aspects of its program. The staff of this department provide a variety of direct care services to residents and former residents. In addition, they have played an important educational role in areas such as AIDS prevention and child care.

It is ironic that the Clinic is one of the components being most seriously questioned for continuation in the future. It is argued that health care services should be available to clients from other sources. It is true that there are a variety of other health care programs for which many individuals may be eligible. However, at this point, few of them are able to make good use of these alternatives.

Because health care is one of the consistent needs of the client population and the services of the Clinic serve as a powerful force in maintaining contact with many individuals, it would make sense to continue as much of the service as possible. Within the framework of a more structured, long term case management system these services could provide a strong and consistent means of promoting individual change.



## Ombudsman

The function of Ombudsman is not officially a part of **UNDER 21**. Rather, it is attached directly to the Corporate President's staff. However, the people who carry out his function are an important part of the agency structure designed to support services to individual clients. They review case situations where individual clients believe that they may have been treated unfairly and, where they find that it is warranted, overturn decisions which have been made by program staff.

This responsibility carries the inherent potential for conflict and ill will and, at times, strong feelings have been generated by the actions of the office. From the perspectives of both program staff and the Ombudsman, there have been occasions when arbitrary and inconsistent actions have been taken by the other. Often, it has been perceived that clients were skillfully using the different components of the agency against each other.

This dynamic has been recognized by the **UNDER 21** management staff, as well as the Ombudsman and considerable attention has been paid to strengthening the working relationship during the past several months. It appears that significant progress has been made in achieving a much higher degree of mutual understanding and consistency.

To be successful, the Ombudsman requires two principal organizational resources: *power*; and *credibility*. Power has been provided by the direct link to the Covenant House President. However, that very link often undermined the credibility of the function in the minds of many staff people who viewed individual an ombudsman as operating without effective supervision or direction. This has given rise to questions about the proper organizational location and accountability structure for the function. In many respects, the Ombudsman may be more effective with a direct reporting relationship to the **UNDER 21** Executive Director who be in a position not only to assure consistent policy interpretation but to take immediate action to correct systemic problems identified through the work of the office.

Regardless of the ultimate structure for supervision and support, the Ombudsman should be represented on the **UNDER 21** management team. While the most important function of the office will continue to be assuring that all clients receive fair treatment within the system, the potential for using its accumulated knowledge and insights into the daily functioning of the various programs should not be neglected. This is particularly true in the area of strengthening of the **UNDER 21** system of quality assurance and accountability.

## Community Affairs

Effective management of relationships with a variety of community institutions, agents, and individuals is important to the success of **UNDER 21** services for three principal reasons:

- Public confidence

To be successful, a community based agency must generally be respected and be considered to be both a "good organizational citizen" and competent provider of services.

- Coordination with related services and systems

No single agency can meet the full needs of all its clients. It relies on other organizations to be effective in their own work and to be supportive of the work of others. A well coordinated system of services requires cooperation, respect, and joint effort among all the related parties.

- Coordination of individual cases

Even within a well developed system of coordinated services, the creation of an appropriate case plan for a single individual can be difficult. Virtually every client served by Covenant House is also the potential client of a variety of other agencies. Individual case coordination should be a constant demand on the agency's staff.

In general, Covenant House has done well in projecting a positive image of its programs. Most representatives of community based agencies interviewed as part of this evaluation place an extremely high value on them and consider them to be indispensable. However, these views seem to exist despite other perceptions which would normally be the cause of substantial animosity and resentment.

It was nearly a universal opinion that Covenant House had a history of being uncooperative, arrogant, unappreciative of other's efforts, and generally unwilling to work closely with other agencies or city authorities. Even those people who indicated that they have enjoyed relatively effective working relationships with the agency expressed the feeling that Covenant House was much better at "talking than listening". Several people expressed the opinion that the clients of Covenant House had been manipulated and used for public relations purposes. Overall, the image projected by most people was not flattering.

On a much more positive note, there were strong indications from a number of people that this situation appeared to be changing and that Covenant House had been growing more open and cooperative within the last two years. Much of the credit for this change was given to a single individual who, until recently, has been the Director of Community Affairs. Even with this acknowledgement of constructive change, most people still felt ill-informed about the agency and unsure about how to initiate appropriate contact with it.

A very interesting variation on this theme was presented by law enforcement officers and others who make regular referrals to **UNDER 21**. They expressed the highest regard for the consistency and availability of the services, particularly the emergency shelter. Nevertheless, they generally do not regard most of the agency's staff people to be either cooperative or competent, and with some important exceptions, do not believe that they can rely on consistent access or communication. For many of them, it feels like a "one way street"; they can make a referral but communication and cooperation stops there.

There was general agreement among the community representatives that effective communication with Covenant House relied on access to only a handful of administrative staff. Beyond this group, they had virtually no expectation on developing any form of working relationship. This is clearly a disturbing message for an agency which should be intimately tied to a wide range of other community groups and resources.

Despite this negative conclusion, there is still reason for optimism. As was mentioned earlier, virtually all observers consider **UNDER 21** services to be of vital importance and seem ready to ignore many of the other factors which would otherwise alienate people. Obviously, Covenant House might be able to continue on this basis indefinitely. However, it appears that with a modest investment in open discussion with community representatives and a consistent effort to development explicit working agreement with other agencies that community relationships could become a substantial strength.

## Administrative Functions

**UNDER 21** is supported by a full range of administrative functions, some essentially self-contained, others which share important aspects of their duties with Corporate administration. As is the case in all large service organizations, some of these activities appear to have only the most indirect bearing on the daily flow of program services while others play a directly visible support role. Nevertheless, regardless of the immediacy of their particular function's relationship to programs, virtually all administrative staff people seem to have a strong sense of the importance of their roles in achieving the fundamental mission of Covenant House. Based on this crucial element alone, it is possible to say that **UNDER 21** has achieved a degree of effectiveness in its administrative support system that is not necessarily typical of comparable organizations.

A detailed analysis of these support functions is beyond the scope of this review and, at any rate, many of the more crucial aspects of administrative services are being assessed separately by the Corporate Board through other means. Therefore, the project team has focused only on those activities and policies which have an immediate affect on the central issues of the review. Within even this limited context, there are a number of relevant observations to be made.

## Funding and Development

Funding and Development has been placed in a peculiar status at **UNDER 21**. Because of the proximity to Corporate development staff and the fact that the Greater New York area plays such a significant role in the overall Covenant House fund-raising strategy, the department must be responsive to both site and Corporate direction. This has a constraining effect on the staff and is a source of frustration. Despite its presence in the strongest fund-raising area covered by a Covenant House program, **UNDER 21** has relatively less authority to proceed on its own initiatives than do sites in other cities.

This may be one of the unavoidable consequences of being located close to corporate headquarters. However, it has the effect of reducing flexibility and initiative at a time when severe budget reductions may require even greater efforts to generate additional sources of revenue. It may be wise to manage the broad general donor base with caution. However, there are a variety of public and private sources of additional support that are uniquely oriented to New York. In this circumstance, the people actually providing the local services should be carrying out the principal development activities. Steps should be taken to clarify the scope of authority of **UNDER 21** to seek its own expanded sources of funding.

## Human Resources

There are four significant areas of Human Resources responsibility which should be addressed.

### Cultural Responsiveness in Hiring Management Staff

Minority youth are disproportionately represented in the client population of **UNDER 21**. It is essential that the agency have the capacity to understand and respond to the special needs of these clients. It is equally important that the young people themselves have confidence that this can happen. Although the agency has a fair representation of minority groups on its staff, there is virtually none at an upper management level. At the very least, this undermines the confidence of people who must be able to believe that **UNDER 21** can provide services which are culturally responsive. At the other extreme, it can be perceived as the product of exclusionary institutional policies which devalue the important contributions which can be made by people of diversified ethnic and cultural backgrounds.

Agency administrators have clearly identified the lack of minority management staff as a problem and have voiced their determination to gain an appropriate balance. Their attitude is commendable. However, it is essential that this now be translated into concrete action.



### Salary Scales for Entry Level Positions

The strength of any direct service program is the product of the quality, generally defined as a combination of skill and attitude, of its staff. Covenant House has been fortunate to have had access to a relatively motivated and capable corps of both volunteer and paid staff at all levels. However, it is becoming increasingly difficult to recruit and retain appropriately qualified people for entry level positions such as in child care and public safety.

There are problems in agencies throughout the country in trying to keep these types of positions adequately staffed. In part, this is because the work can be demanding and frustrating. In larger measure, however, it is a direct product of relatively low salaries. In areas which enjoy a cost of living substantially lower than in the City of New York, entry level salaries are not appreciably different than what is currently being paid by **UNDER 21**. It is predictable that it will become increasingly difficult to maintain appropriate front-line staff unless action is taken to increase the level of compensation..

### Staff Training

**UNDER 21** has an extensive set of in-service training resources available to its staff. Although incomplete in some respects, the training curriculum, if implemented and applied on a consistent basis, could provide the basis for substantial benefit to the agency's

overall performance. Regrettably, the available resources are not used up to their potential primarily because many staff do not fully participate. The apparent reasons for the lack of participation are that:

- unit workloads are such that staff cannot be given the time to attend sessions; and
- the actual scheduling of training sessions can be erratic and unreliable.

Consequently, a great many people are not receiving even the basic training which the agency is prepared to offer.

If workloads are so heavy that time for training cannot be made available, then adequacy of staffing must be seriously questioned. It is equally likely, however, that supervisory staff have not made training a priority and have not expected or assured that people attend on a regular basis. **UNDER 21** should take steps to assure that:

- all staff are aware of the expectation that they attend training;
- that supervisory staff are responsible for enabling them to do so; and
- consistent schedules of availability are maintained.

The actions which had been taken during the past fiscal year to begin a substantial upgrading of skills of existing staff through an extensive tuition reimbursement program represents the type of commitment which should be made by an agency of the size and complexity of Covenant House. It has represented a commitment to existing staff at the same that it has recognized the need to develop an enhanced capacity and level of skill.

At a content level, the training curriculum is generally sound. However, in at least one respect it reflects an area of weakness in UNDER 21 programming which was discussed in an earlier section: the capacity to engage its clients in the formulation of individually relevant and responsive case plans. As part of a response to this need, UNDER 21 should upgrade its training curriculum to assist staff in the development not only of direct case planning skills, but also in the skills of "cultural competence" necessary to successful work with the multi-racial and multi-ethnic population it serves.

### Employee Relations

Covenant House, as an organization, has prided itself on a tradition of relatively comfortable relations among its staff. This has been attributed to the widespread understanding and commitment to the agency mission and the solidarity of purpose that resulted. However, it is reported that there has always been a strong undercurrent of staff discontent related to issues ranging from

adequate pay to individual respect. It appears that there has been a deepening of this feeling as the agency has grown larger in recent years and, most recently, as it has struggled to adjust to the financial and leadership changes of the past months.

It is ironic that the evidence of staff concerns has increased in large part because of the only recently developed perception that it is appropriate to state dissenting views. It is reported that the previous belief was that any expression of concern or discontent would generate a response of accusations of lack of commitment or sincerity and could lead to "retaliation" within the organization. Therefore, it appears that at least some of the increased expression of staff grievances may actually be a relatively healthy sign of increased staff empowerment and involvement in organizational problem solving.

Compared to many organizations of comparable size, UNDER 21 still enjoys an effective relationship between its management and staff. Nevertheless, there are sufficient sources of concern about such matters as compensation, job security, and

program policy to be the cause of some concern. At this point, it appears that the single most effective actions to be taken are to:

- assure that the efforts to establish and maintain adequate internal communication are continued; and
- provide legitimate opportunities for joint consideration of those matters which affect everyone who works at Covenant House.

#### Public Safety

The public safety function has been the subject of a separate outside review. Therefore, the project team has confined its attention to one significant area, the role of staff in establishing and enforcing policy and standards with clients. Unlike security staff in some organizations, the people employed within the Covenant House Public Safety Department have regular interaction with current and former residents. As actions are taken to change the basis upon which security services are provided, special attention should be given to assuring that this aspect of the function is appropriately considered. Public Safety staff should continue to be expected to have skills in the area of client interaction and provision should be made for them to be involved in the formulation of shelter policy and case management procedures.

## Facilities Management

The **UNDER 21** physical plant is in excellent condition, is well-maintained, and well-equipped. The project team has rarely seen a shelter or other comparable facility serving this target group which is as clean and pleasantly maintained as is the West 41st Street facility.

The staff appears to be doing an excellent job and to take justifiable pride in their work. It is clear that many of these people also identify strongly with a role in support of residents and that they expect to have regular interaction with them. On balance, this would seem to be appropriate. However, as with the Public Safety staff, it is important to assure that this interaction takes place in a manner consistent with case plans and the overall policy of the program. For this reason, it is important to provide for a mechanism to keep maintenance staff informed about client status and to give them the opportunity to participate in the ongoing consideration of the effectiveness and appropriateness of program.

## Food Service

By all accounts, the food available to residents of **UNDER 21** is plentiful and well-prepared. There are indications, however, that the basic practices of the Food Service Department have not been economical or efficient. It appears that it is possible to provide food of comparable

quality and availability at considerably less cost than is now being incurred. At a time of serious budget problems, it would be appropriate to give consideration to re-directing resources saved in a more efficient operation to program areas of greater need.

### Data Processing

Data processing does not exist as a separate function within Under 21. However, as with most organizations of this size, automated systems are among the most important and complex tools being used in support of programs. Compared to other similar organizations, Covenant House has reasonably complete access to appropriate hardware, systems software, and skilled staff.

However, because **UNDER 21** is largely dependent on corporate data processing which is oriented to fund-raising, there are issues which should be considered for improving the agency's capabilities.

- The current system is not particularly strong for purposes of case management. Resources should be made available for a specialized case management and tracking system.
- The **UNDER 21** financial management system is limited because of its integration into the Corporate system, which was not designed for program budgeting and accounting purposes.

## Research

The **UNDER 21** Research Department is a unique resource for a program of this size. It has the capacity to carry out a variety of inquiries and analyses which can be of substantial benefit to administrators. In addition, the staff has developed a sound understanding of the case information system and could be of substantial assistance in the design of a system which would be more directly supportive of case management.

The Research Department is also responsible for the maintenance of the agency's case records. As a result of the budget reductions, it has been left with no staff to carry out this function. **UNDER 21** has taken actions to cover these tasks by assigning responsibility to a clerical person from another administrative unit. It is recommended that this arrangement be monitored closely to assure that the status of case record maintenance does not deteriorate.

## Relationship to other Covenant House Programs

**UNDER 21** is one of three direct service programs operated by Covenant House in New York. The other two, **Rights of Passage**, and **9-LINE**, are more specialized in their focus although they are designed to serve the same broad target group of homeless youth. For the purposes of



this review, the principal concern has been to understand the nature of the working relationship among the three programs.

### **Rights of Passage**

**Rights of Passage** is a program designed to assist older youth in achieving financial and social independence through a variety of educational and vocational activities. It uses a system of "mentoring" to provide its clients with intensive individual support and role models while also providing longer term shelter and counseling in a separate facility. In order to participate, an individual must complete a rigorous application process and be capable of carrying out a full-time educational or vocational plan. Although this program was not evaluated within the context of this review, it impressed the project team as a sound alternative for a number of youth who have been using the services of **UNDER 21**.

Although **Rights of Passage** originated as a component of **UNDER 21** and has, therefore, worked closely with the emergency shelter, there currently exists a somewhat strained relationship between the two programs. This is due, in large measure, to the perception of **UNDER 21** staff that the program has become "elitist" in its orientation and that many of the young people whom they are seeing at the shelter are unable to relate to it as a realistic alternative. They contend that the orientation of the program is not relevant to the experience of many

minority clients and that it is more difficult for females to gain admission than it is for males. To compound this feeling, they believe that some clients have been needlessly discouraged, or even humiliated by the competitive application process. As a result, even though **Rights of Passage** accepts referrals from nowhere other than Under 21, a growing reluctance to make referrals is emerging among the staff of the various **UNDER 21** units.

Because of the budget reductions throughout all Covenant House programs and the resulting reduction in the size of **Rights of Passage**, this slowing of referrals has apparently not yet had a noticeable impact. However, it is a matter which ought to be receiving serious attention. It is clear that many of the young people using **UNDER 21** do need longer term support. Regardless of whether or not the current **Rights of Passage** program is the most appropriate resource for all of them, it should be used whenever possible.

The proposed plan to re-integrate the administration of **UNDER 21** and **Rights of Passage** could help considerably to improve the working relationship. Whether or not this plan is implemented, Covenant House should give consideration to establishing a permanent team of **UNDER 21** and **Rights of Passage** staff to carry out joint planning and to facilitate the referral of cases between the programs.

## 9-LINE

Covenant House established **9-LINE** as a national hotline for homeless or runaway youth seeking assistance and for families in crisis. It has developed an active workload of varied telephone inquiries from around the country.

Although it does receive calls from the New York area, and does dispatch the **UNDER 21** outreach vans in response to some of them, **9-LINE** has not been a significant source of referrals to the West 41st Street shelter. While there has been a modest increase in referrals to the shelter in recent months, the overall number remains small. Of more significance to shelter staff has been the perception that **9-LINE** volunteers are sometimes poorly informed about the actual services offered by **UNDER 21** and that, as a result, young people are often given erroneous or inappropriate information.

This indicates that while there may not be the same need for case coordination with **9-LINE** as there is with **Rights of Passage**, there is a need for more effective communication and, perhaps, joint training of volunteers.

## Section Four:

### Governance, Administration, and Organization

One of the most significant issues facing Covenant House in New York involves the issue of authority. Prior to Father Ritter's departure from the agency it was clear that he held the ultimate power to make decisions at both the corporate and site levels. Since that time, there has been a degree of confusion over what decisions should be made by the **UNDER 21** Board and which should be made by the Corporate Board. In many respects, this confusion reflects the variety of views that are held by various volunteers and staff about future directions and priorities for the organization. Some people believe that qualitatively different choices would be made by the two boards because of a fundamental difference in membership and orientation. To outside observers it is not at all clear that these differences necessarily exist.

This continuing lack of clarity has an immediate and directly negative affect on the **UNDER 21** staff. It has been:

- confusing and discouraging to staff at all levels;
- a contributing factor in the delay of a variety of actions to improve **UNDER 21** administrative and program services;  
and

- ultimately an undermining factor in the level of confidence that front-line staff are able to have in administrative and volunteer leadership.

It is apparent that the members of the **UNDER 21** Board want to be able to function with a same degree of authority and autonomy which they believe is afforded to the boards of sites in other cities. They believe that they are disadvantaged by being at close proximity to the Corporate Board while having no offsetting ability to influence the decision-making of that group. In general, they have believed that the agency would be better served if it either provided them with the proper authority or simply assumed all responsibility at a corporate level.

Clearly it is imperative to resolve these questions. The review team might agree with the limited perspective that it is better to have a clear designation of either the **UNDER 21** Board or the Corporate Board as the principal authority than to continue under present circumstances. However, it would be far more consistent and ultimately, more effective, to lodge appropriate authority with the site board.

The recent proposal to consolidate **UNDER 21** and **Rights of Passage** and to operate the programs under the authority of a single New York site board offers an appropriate alternative to the "all or nothing" approach. Although many of the same questions of the relative balance of authority would remain, this change would appear to offer the opportunity to strengthen the site board and to increase its visibility as the focal point of governance for New York.

## Management Practices

The evolution of the **UNDER 21** Program has been closely tied to the overall growth of Covenant House and its identification with the role of Father Ritter as the ultimate authority in most matters. As a result, its administrative structure has evolved in a manner that reflects a unilateral style of decision-making. The practical effect of this style has been to establish a structure which tends to isolate individual managers, allowing them a degree of individual freedom but denying them access to a strong support team.

The result of this approach has been a management framework characterized by:

- poor lateral communication;
- weak mechanisms for coordinating activities;
- inconsistent policies and practices among units; and
- a lack of clear supervisory lines of authority.

The overall impact of this framework has been to support a system in which individual or unit accountability has been difficult to maintain.

This problem was clearly identified in the October 1989 report of the **UNDER 21** Task Force on Organizational Effectiveness. The alternative organizational structure proposed in that report would provide an appropriate basis for developing a more integrated and mutually supportive approach to management. In combination with the strong efforts of recent months to improve internal communication and teamwork, it could substantially enhance internal accountability.

The only significant weakness perceived by the review team in this proposal is in the exact nature of the clusters of tasks to be delegated by the Executive Director to upper management. There would appear to be the strong potential for the recurrent escalation of specific program issues to the Executive Director's Office for resolution. The principal goals of the reorganization should be to:

- enable the Executive Director to maintain a broad perspective on program responsibilities without the necessity of daily, detailed program intervention;
- establish a strong upper management team which has the capacity to work in close coordination in the direction and control of all aspects of the program; and
- establish clear lines of accountability directly from the Executive Director, through principal deputies, to front-line staff.

The review team suggests that some minor variations (see Figures III, IV, and V) on the proposals of the Task Force might enhance these capabilities.

**FIGURE III**





**FIGURE IV**

**UNDER 21**

**ALTERNATIVE**

**ORGANIZATIONAL STRUCTURE**



**FIGURE V**

**UNDER 21**

**ALTERNATIVE**

**ORGANIZATIONAL STRUCTURE**



## Section Five: Additional Observations

In addition to the specific findings outlined in the preceding sections, the review team believes that there are additional observations which should be made even though they do not fall clearly within a given content area. These include the following:

### Licensing

Covenant House has consistently failed to seek or obtain appropriate operating licenses from state and local authorities. While there are a variety of philosophical and practical reasons for this, there is ultimately no suitable justification for knowingly operating outside the scope of the laws which govern all other programs providing comparable services.

It may be true that existing licensing standards do not quite fit the goals and purposes of the various Covenant House programs. Nevertheless, the absolute commitment of the agency's administration should be to actions to reconcile its differences with the public authorities, including specification of the changes in standards which would be essential to its continuing successful operation. There is adequate reason to believe that

the public value placed on Covenant House services is sufficient to support the achievement of sound modifications on both sides of the issue.

Otherwise, continuing failure to obtain appropriate licenses results in:

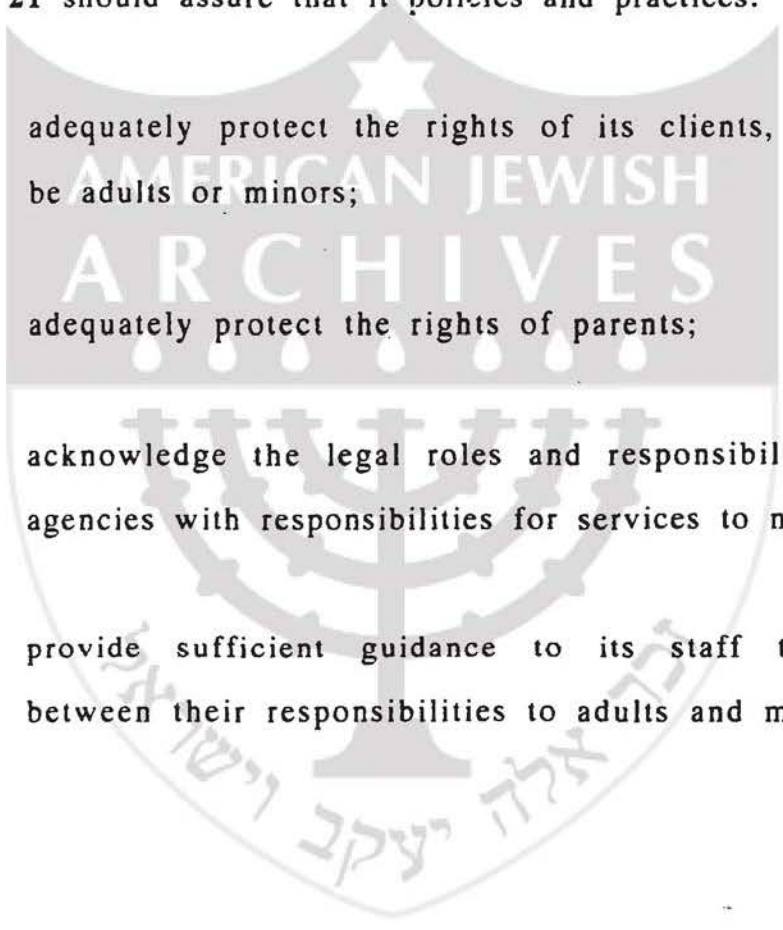
- the lack of any formal assurance, within accepted public means, that Covenant House programs are fundamentally safe; and
- the communication of a fundamental message that is in direct conflict to the principles which Covenant House espouses in its interaction with its own clients: *Respect for other people, the willingness to work responsibly with them, and the capacity to work effectively within the framework of mutual expectations.* It is difficult to understand how an organization can teach respect for the community and its laws, when its own actions are in direct defiance the legitimate formal expectations of that community.

#### Balancing Program requirements for both Minors and Adults

**UNDER 21** is unusual in the extent to which it provides similar services to young people both above and below the age of eighteen. In

most respects this is a strength of the program; it effectively avoids the same problems with arbitrary "eligibility" considerations which often bars people from services simply because of their age. At the same time, it is extremely important that the full implications of providing services to people who either minors or adults be appreciated by all program staff.

**UNDER 21** should assure that its policies and practices:

- 
- adequately protect the rights of its clients, whether they be adults or minors;
  - adequately protect the rights of parents;
  - acknowledge the legal roles and responsibilities of other agencies with responsibilities for services to minors; and
  - provide sufficient guidance to its staff to distinguish between their responsibilities to adults and minors.

### Facility Size and the Relationship to Safety

There are no exact standards for acceptable size of either emergency shelters or child care facilities in general. They come in all sizes and configurations. Some people believe that an emergency program of more

than forty shelter beds is unmanageable. However, with the exception of **UNDER 21** there really are no programs upon which to base empirical judgements.

The real issue in regard to size is probably not size itself, but the level of agency recognition of the implication of size and the requirements it impose on itself to assure adequate staff support, internal supervision, and assurances of protection of its clients and the effectiveness of its services. **UNDER 21** should remain aware of the special challenge it has assumed in operating a facility of this size and assure that it is able to maintain adequate sensitivity to staffing and support demands.

#### Planned and Controlled Growth

Covenant House has grown at a substantial rate during its existence. Virtually all of this growth has been in response to an urgent sense of the compelling unmet needs of young people and has helped to improve the capacity of its various site cities to cope with difficult problems. However, it has not paid equal attention to the ongoing need to develop and maintain a strong capacity to manage and support its existing programs. Particularly in view of the current budget problems it is experiencing, it should suspend all further development plans until it has clearly stabilized and strengthened these programs.

## Staff Feelings of Alienation

Many of the staff people of **UNDER 21** have felt a sense of alienation from the larger Covenant House organization for some time. In many respects, this has reflected their perception that decision-making occurred in an autocratic, if not arbitrary, manner. These feelings have been significantly heightened in recent weeks by the series of budget reductions and the subsequent proposal to consolidate the administration of **UNDER 21** with **Rights of Passage**.

Regardless of their particular level of agreement with actual decisions or proposals, they have felt an acute sense of non-participation in much of the process. This has aggravated their sense of distance from Corporate leadership and has contributed to an increasingly adversarial atmosphere within the organization.

Covenant House leadership should acknowledge the serious nature of this staff concern and should take steps to assure that it is addressed. Timely communication, open discussion of perceived problems, and expanded participation in deliberations leading up to decision-making could make a substantial difference in staff opinions.

**Section Six:**  
**Summary of Major Recommendations**

**Governance**

- **Covenant House should attach a high priority to making clear decisions about its expectations for the scope and content of UNDER 21 programs. Such decisions should be made:**
  - **with all due speed; yet**
  - **with assurance of appropriate participation of volunteers and staff.**
  
- **The local boards for New York programs should have the necessary authority to operate their programs with the same degree of autonomy as is afforded to the programs in other cities.**
  
- **Consolidation of the boards and the administration of UNDER 21 and Rights of Passage should be seriously pursued as it has the potential to improve substantially the operations of Covenant House programs in New York.**



- **Covenant House should temporarily suspend all further development plans until it has clearly stabilized and strengthened its existing programs.**
- **Steps should be taken to clarify the scope of authority of UNDER 21 to seek its own expanded sources of funding.**

### **Open Intake**

- **The principle of "open intake" cannot be implemented literally. It should be clear to all, both inside and outside of the agency, that it is realistically tempered by considerations of:**
  - **individual client behavior;**
  - **the realistic limitations of UNDER 21 and its staff in not being able to respond appropriately to all people, regardless of their needs; and**
  - **physical capacity of the shelter facility.**

- In order to maintain the capacity never to turn a young person back to the streets strictly on the basis of available beds, Covenant House should have:
  - an "elastic" physical capacity, backed by a flexible staffing capacity; and
  - a willingness to connect and place clients in appropriate alternative programs.
- In responding to demands over its usual capacity, UNDER 21 should clearly recognize the risks to itself and its clients which can result from overcrowding and should be prepared to:
  - adjust to increased client admissions with increased staffing and support; and
  - make maximum use of alternative resources when necessary.

## Case Management

- **UNDER 21 should adapt the approaches being used in the Substance Abuse Unit and the Mother and Child Program to establish a consistent set of expectations for case planning and case management and apply them within all units. This should include the development of an enhanced capacity to:**
  - **respond differentially to individuals;**
  - **involve individual clients, particularly those who are adults, in the actual formulation of their own plans;**
  - **provide continuity in planning and goal-setting for those individuals who experience multiple admissions;**
  - **provide access to a continuum of services;**
  - **maintain referral connections to other programs;**

- maintain aftercare services when appropriate; and
- maintain the staff capacity to develop client-directed plans while simultaneously assuring that they are realistic.

**Program**

- The current intake and assessment process should be:
  - streamlined;
  - staffed by a core of highly skilled diagnosticians; and
  - supported by a structured program to supplement the actual intake and assessment activities.

- **An improved system of tracking clients during a stay in the shelter and at re-entry should be developed.**
- **A consistent standard of expectations and supervision of front-line staff should be implemented.**
- **The roles of various professional and paraprofessional positions within the units should be clarified and standardized.**
- **Action should be taken to assure that staff roles and lines of authority are fully understood by both staff and clients.**
- **Program staff and the Ombudsman should continue their work to assure more consistent application of the "card" system.**
- **Public Safety staff should continue to be expected to have skills in the area of client interaction. Provision should be made for them to be involved in the formulation of shelter policy and case management procedures.**
- **Maintenance staff who have interaction with clients should be kept informed about client status and given the opportunity to participate in the ongoing**

consideration of the effectiveness and appropriateness of program.

- A permanent team of UNDER 21 and Rights of Passage staff should be created to carry out joint planning and to facilitate the referral of cases between the programs.
- UNDER 21 and 9-LINE should develop more consistent communication and conduct joint training of volunteers.
- The quality of written case records should be improved to reflect detailed case goals and to provide the basis for appropriate measurement of client progress.

### Aftercare

- The Aftercare capacity should be expanded to serve all clients who leave the shelter with continuing case goals.
- Health Services and Legal Services should be viewed as part of an expanded system of "continuing care" to former residents, both for aftercare and case continuity purposes.

## Administration

- The administrative structure of UNDER 21 should be modified, consistent with the general recommendations of the October 1989 staff report to provide more consistent supervision and lines of accountability at all levels.
- UNDER 21 should continue its efforts to engage its staff in the problem-solving process by responding to legitimate concerns about agency policies, practices, and working conditions.
- Plans should be developed to upgrade entry level salaries in order to improve the capacity of UNDER 21 to recruit and retain staff.
- The effectiveness of in-service training should be improved by assuring that:
  - all staff are aware of the expectation that they attend training;

- that supervisory staff are responsible for enabling them to do so; and
  - consistent schedules of training availability are maintained.
- 
- The administration of UNDER 21 should continue its efforts to improve employee relations by:
    - assuring that adequate internal communication is maintained; and
    - legitimate opportunities are provided for joint consideration of those matters directly affecting staff.
  - UNDER 21 should consider methods of achieving savings within its food service department and re-directing those savings to areas of greater need.



- **Under 21 should develop greater direct capacity to manage its own data processing resources in order to:**
  - **establish a specialized case management and tracking system; and**
  - **upgrade its financial management system to be more responsive for program budgeting and accounting purposes.**
- **The new method for maintaining case record files should be monitored closely to assure that the status of case record maintenance does not deteriorate.**

## **Outreach**

- **UNDER 21 should consider the possibility of increasing the effectiveness of its outreach by focusing its attention on maintaining a more effective information and referral system with other social service agencies.**

- The current outreach efforts of OFF the Streets should be viewed primarily as an effort to maintain a street-based network of actual and potential support for a group of seriously disturbed and alienated young people, rather than as an efficient means of bringing clients into the program.

### Cultural Responsiveness

- UNDER 21 must continue to make efforts to develop an complete capacity to respond appropriately to the cultural, ethnic, and religious diversity of its client group.
- A more appropriate balance of minority representation on the Corporate Board, the Under 21 Board, and the agency administration must be achieved.
- The Under 21 staff training curriculum should be expanded to incorporate more effective learning experiences in the skills of "cultural competence".

## Ombudsman

- Covenant House should consider the merits of establishing a reporting relationship between the Ombudsman and the UNDER 21 Executive Director.
- Regardless of the structure for supervision and support, the Ombudsman should be represented on the UNDER 21 management team.

## Community Relations

- UNDER 21 should undertake an intensive effort to establish effective community relationships by:
  - re-activating its advisory committee;
  - establishing cooperative agreements with other agencies;
  - providing consistent information about its activities to interested citizens in the immediate neighborhood.

- **Covenant House should make all the findings and recommendations of this review available to the public.**

## **Licensing**

- **Covenant House must recognize its accountability within the community by conforming to reasonable licensing standards. In return, it should expect that regulatory agencies should seek to take full advantage of its unique capabilities by assuring that licensing standards do not inadvertently or arbitrarily prevent it from serving its clients.**

**STATEMENT OF THE OVERSIGHT COMMITTEE  
OF  
COVENANT HOUSE**

**WILLIAM ELLINGHAUS, CHAIRMAN**

**RABBI MARC TANENBAUM**

**REV. THEODORE M. HESBURGH**

**CYRUS VANCE**

**PAUL VOLCKER**

**AMERICAN JEWISH  
ARCHIVES**

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**A REPORT TO THE BOARD OF DIRECTORS  
AND THE OVERSIGHT COMMITTEE  
OF  
COVENANT HOUSE**

**CRAVATH, SWAINE & MOORE,  
Worldwide Plaza,  
825 Eighth Avenue,  
New York, New York 10019.**

**KROLL ASSOCIATES,  
900 Third Avenue,  
New York, New York 10022.**

**August 3, 1990.**

## STATEMENT OF THE OVERSIGHT COMMITTEE OF COVENANT HOUSE

On March 7, 1990, The Board of Directors of Covenant House appointed us to serve as an Oversight Committee. Our function has been to oversee and evaluate the results, conclusions and recommendations of the several investigations that the Board commissioned Cravath, Swaine & Moore, Robert J. McGuire of Kroll Associates, Ernst & Young and Richard Shinn, former President of New York Metropolitan Life Insurance Co., to perform. During the past five months, we have met several times and we have received and discussed with the investigative teams their oral and written reports.

We have examined carefully the Report to the Board of Directors and the Oversight Committee by Cravath, Swaine & Moore and Kroll Associates concerning the results of the investigations. We endorse its conclusions and recommendations. A brief summary of the Report is attached.

We find the excellent Report to be a thorough, careful, and honest appraisal of Covenant House and the problems it has encountered. We are convinced the investigations have been complete and impartial. Allegations of misconduct have been fully explored, and assessed with candor as well as sensitivity. The Report identifies a number of areas in which, in the past, overall surveillance and control by the Board of Directors was weak, reflecting in part the unusual organizational structure that did not provide the usual and necessary checks and balances.

Clearly, mistakes were made. Some corrective measures have been taken and others have been recommended and will be put in place. We are convinced the recommended measures appropriately address past weaknesses and should assure a firm foundation for the future work of this unique and important organization. We recommend that there be systems for monitoring the implementation of these measures over time, and we understand these are being put in place as well.

Based upon our examination of the materials before us, we agree with the conclusion of the Report that there is far more right with Covenant House than there was wrong with it. The investigators report that, wherever they went, they found dedicated, honest and good people doing difficult, often thankless work under extraordinarily trying conditions. They conclude that the work of Covenant House is essential and extremely important and so do we.

We come away from our work convinced that Covenant House provides vital services, for which there are no practical alternatives, to large numbers of troubled young people. We believe that Covenant House, under its new and energetic leadership and with the changes put in place in recent months, deserves the public's confidence and support.

William Ellinghaus, Chairman  
Rev. Theodore M. Hesburgh  
Rabbi Marc Tanenbaum  
Cyrus Vance  
Paul Volcker

August 3, 1990.

## SUMMARY OF THE REPORT

The first section of the Report describes the structure of Covenant House and the governance and management changes made since Father Bruce Ritter's resignation. The Report describes how Covenant House was incorporated in 1972 by Father Ritter as a not-for-profit corporation and how he became the "sole member" of the corporation in 1975. As a result of becoming sole member, Father Ritter appointed all of the directors and officers and had complete legal and operational control of Covenant House. During the 1980s, Covenant House grew to a corporation with an \$85 million budget, serving 25,000 young people a year.

After Father Ritter's resignation in 1990, Covenant House was reorganized so that the membership structure was eliminated and full control of the organization reverted to the Board of Directors. Since March 1990, the Board of Directors has been reconstituted; five members have resigned and eight new members have been elected. A new President, Sister Mary Rose McGeady, was chosen on July 10, 1990, and will start on September 1, 1990. New By-laws have been adopted as have a number of procedural and policy reforms concerning conflicts of interest, financial transactions and other matters, described in the Appendix to the Report.

The second section of the Report constitutes the report of the investigation conducted by Kroll Associates into allegations of sexual misconduct and financial and other improprieties. With respect to allegations of sexual misconduct on the part of Father Ritter, the Report states that the evidence of sexual misconduct discovered by Kroll is extensive. The Report concludes that in view of the cumulative evidence found by Kroll supporting the allegations, if Father Ritter had not resigned from Covenant House, the termination of his relationship with Covenant House would have been required. The Report further states that even if one were to accept Father Ritter's explanation of the events, the same conclusion would have been justified solely on the basis that Father Ritter exercised unacceptably poor judgment in his relations with certain residents.

The Report discusses the Franciscan Charitable Trust, a trust established by Father Ritter in 1983 from surplus funds available to him from compensation paid by Covenant House to his Franciscan Order in respect of his services. At Father Ritter's direction, Covenant House made a \$60,000 annual contribution to the trust for five years and the trust made loans to two Covenant House directors, Father Ritter's sister and one former Covenant House resident. The Report finds that the Covenant House contribution should not have been made without the Board's knowledge and approval, if at all. The Report notes that the trust funds are reported to have a value of approximately \$1 million and are expected to be contributed to Covenant House.

The Report also finds that Covenant House made loans to Father Ritter and to two other senior staff members. The loan to Father Ritter, in the form of a salary advance that was repaid, was not permitted by New York law because he was a corporate officer. The other loans should have been brought to the attention of the Board. Likewise, Covenant House's contract with companies owned by Father Ritter's niece and her husband should not have been made without Board knowledge or approval and competitive bidding.

Kroll's review of Covenant House's financial systems revealed no irregularities or improprieties with respect to Covenant House's collection and safeguarding of donor contributions. Kroll did find some operational deficiencies with Dové Services, Inc., a small subsidiary that has been discontinued, and with the payroll in the Security Department of another subsidiary, Under 21, which Covenant House reported to the proper authorities. Kroll also found some operational deficiencies with various petty cash funds. Kroll found no other evidence of

any material financial impropriety. This section concludes with a report on several other miscellaneous allegations that were found to be unfounded or relatively minor.

The third section of the Report summarizes the findings of Ernst & Young, the independent public accounting firm, which conducted a review of Covenant House's significant systems of internal accounting control and those of three of its subsidiaries. The review encompassed those systems in place during the month of March 1990. In general, Ernst & Young found that there was an adequate level of control consciousness, that financial accounting and reporting systems were designed to provide management with sufficient, accurate and timely information to manage the organization and that further improvements were planned. Overall, the results of Ernst & Young's testing indicated limited instances of noncompliance with established policies and procedures. Some deficiencies in the control systems were found, principally in the areas of petty cash, cash disbursements and payroll, most of which were at the subsidiary, Under 21. In addition, the procedures performed by Ernst & Young uncovered no significant deficiency in the design of the system of internal accounting control over donor contributions and no instances of noncompliance with stated procedures.

The fourth section of the Report discusses compensation levels and reports the findings of Richard Shinn, Executive Vice Chairman of the New York Stock Exchange and former President of Metropolitan Life Insurance Co., that Covenant House's compensation levels are well within acceptable limits and that the approach and implementation of management has been professional and reflects fair compensation.

The fifth section of the Report summarizes the report of the Child Welfare League on Covenant House programs in New York City, which found that such programs are generally well-conceived, appropriately structured and are an irreplaceable resource to the City of New York and a sound model for delivering critically needed services to a population that is otherwise seriously underserved.

The sixth section of the Report sets forth the overall conclusion that the investigators found far more right with Covenant House than they found wrong with it. They concluded that Covenant House is sound and its work is essential and effective, and that it must survive to serve those young people who so desperately need its services.





**A REPORT TO THE BOARD OF DIRECTORS  
AND THE OVERSIGHT COMMITTEE  
OF  
AMERICAN JEWISH  
ARCHIVES  
COVENANT HOUSE**

**CRAVATH, SWAINE & MOORE,  
Worldwide Plaza,  
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New York, New York 10019.**

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New York, New York 10022.**

August 3, 1990.

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## BACKGROUND OF THE INVESTIGATION

In December 1989, the press reported allegations by Kevin Kite, a former Covenant House resident,<sup>1</sup> of sexual misconduct on the part of Father Bruce Ritter, President and founder of Covenant House, and financial improprieties on the part of Father Ritter and Covenant House. Shortly thereafter, the Manhattan District Attorney's office announced that it had opened an investigation into those allegations. The New York State Attorney General's office also said it was making a preliminary inquiry into the finances of Covenant House.

In the ensuing months, additional reports emerged in the press elaborating on the original charges and setting forth additional charges made by others.

Covenant House cooperated with the District Attorney's investigation, making financial and other records available to the District Attorney and making its employees available for interviews by members of the District Attorney's staff. Father Ritter, who was separately represented by counsel, was also interviewed by the District Attorney's staff. The Attorney General deferred his request for documents or further information until the District Attorney's investigation was concluded.

On February 6, 1990, Father Ritter was ordered by his Franciscan superiors to take a leave of absence from his position as President of Covenant House pending completion of their own inquiry into the allegations of sexual misconduct. On February 7, 1990, the Board of Directors of Covenant House appointed Frank J. Macchiarola, former New York City Schools Chancellor, as Acting President. Mr. Macchiarola was at that time a member of the Covenant House Board of Directors.

On February 27, 1990, Father Ritter resigned as President of Covenant House, stating that "the controversy that has surrounded me for the past three months has made it impossible to lead Covenant House effectively". At a meeting of the Board of Directors held that same evening, the Board asked Mr. Macchiarola to step down from his position as Acting President and appointed James Harnett, who was then the Chief Operating Officer, to that position.<sup>2</sup>

On February 28, 1990, the District Attorney announced that he had closed his investigation and did not file any formal charges.<sup>3</sup>

At a meeting of the Board of Directors held on March 3, 1990, Edmund J. Burns, who was then Covenant House's General Counsel, described to the Board a trust fund that had been created by Father Ritter in 1983 (the "Franciscan Charitable Trust") and stated that the trust had

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<sup>1</sup> The term "resident" is used to refer to all young people who receive shelter at Covenant House, whether for one night or a longer period of time.

<sup>2</sup> Mr. Macchiarola issued a statement in which he said that "I advocated a program of discovery and remedial action. Father Ritter also made a presentation to the board. After hearing both approaches, the board voted against my expressed course of action. Since the board does not agree with my vision and we are in disagreement over substantial questions of policy, I cannot carry out my role as acting President." Members of the Board disputed Mr. Macchiarola's statement, and stated that there was no substantive disagreement as to what actions should be taken but only as to who should be charged with the responsibility for carrying them out.

<sup>3</sup> In a prepared statement, the District Attorney said that "there is insufficient evidence to warrant criminal charges" and that "I am confident that [Covenant House] will emerge from this episode a stronger and more effective organization which continues to deserve widespread public support."

made loans to two members of the Covenant House Board of Directors, James Maguire and Dr. James Kennedy. He also stated that Father Ritter had received a \$25,000 salary advance from Covenant House and that two other senior officials, James Kelly and John Kells, had received housing loans of \$60,000 and \$100,000, respectively, from Covenant House.

On March 6, the Charities Bureau of the New York State Attorney General's Office opened a formal investigation into the legality of loans made by Covenant House to certain of its officials and other related matters.

On March 7, 1990, Mr. Burns resigned as Covenant House's General Counsel and was replaced by the firm of Cravath, Swaine & Moore, which agreed to serve on a *pro bono* basis.

At a meeting of the Board of Directors held that evening, the Board asked the Cravath firm, together with Robert J. McGuire, former New York City Police Commissioner and currently Senior Managing Director of Kroll Associates, a private investigating firm, to undertake a full investigation of all allegations of misconduct relating to Covenant House.

The Board also formed a special Oversight Committee to review the results of those investigations, which committee consists of the following persons:

William Ellinghaus, former President of AT&T (Chairman);

Reverend Theodore M. Hesburgh, former President of Notre Dame University;

Rabbi Marc Tanenbaum, International Relations Consultant;

Cyrus Vance, former Secretary of State and member of the firm of Simpson, Thacher & Bartlett; and

Paul Volcker, former Chairman of the Federal Reserve and Chairman of the firm of James D. Wolfensohn, Inc.

Those directives were set forth in a formal Board resolution that was adopted at the Board's meeting on March 14, 1990:

"RESOLVED, that the Board of Directors 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 purpose 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."

In addition, the Board took the following actions:

(i) the Board retained the accounting firm of Ernst & Young to conduct a special review of Covenant House's financial procedures;<sup>4</sup>

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<sup>4</sup> Covenant House's regular auditors were Deloitte & Touche. It was decided that the review of financial procedures should be conducted by an accounting firm that had no previous relationship with Covenant House.

(ii) the Board asked Mr. Richard Shinn, Executive Vice Chairman of the New York Stock Exchange and former President of Metropolitan Life Insurance Co., to review Covenant House's compensation practices;

(iii) the Board asked the Conference Board and other organizational experts to review the relationship between Covenant House and its subsidiaries; and

(iv) the Board asked the Child Welfare League to review certain Covenant House programs for compliance with Covenant House's policies and generally recognized standards of care.

The Board directed that the results of all those investigations be made to it and to the special Oversight Committee and, to the extent possible, be made public.

At that time the Board also formed a Search Committee to conduct a search for a new President and asked John Cardinal O'Connor, Archbishop of New York, for his assistance in locating a temporary President, as described herein.

AMERICAN JEWISH

This report constitutes and incorporates the reports of all these investigations. Because the Board of Directors decided to make the full report public, the report is written for the general public as well as the Board and the Oversight Committee. We have discussed the background to certain events and the relevant reforms and actions that have taken place since February 27, 1990. This report is divided into six sections:

Section I discusses the structural and management changes that have been made at Covenant House since February 27, 1990. This section begins with a brief history of Covenant House that helps to explain why certain problems may have arisen and why certain changes were made. This section also discusses the review by the Conference Board and other experts of parent-subsidary relations, which is ongoing.

Section II discusses allegations of sexual, financial and other misconduct at Covenant House, as investigated by Kroll Associates.

Section III summarizes the report by Ernst & Young on Covenant House's financial procedures.

Section IV discusses the conclusions of Mr. Shinn relating to Covenant House's compensation practices.

Section V summarizes the report of the Child Welfare League.

Section VI sets forth our conclusions, to the extent not set forth in other sections of this report.

The Appendix recapitulates the structural reforms and major policy and procedural changes that have been made at Covenant House since February 27, 1990, and other recommendations.

## PART I

### THE STRUCTURE OF COVENANT HOUSE

#### A. A Brief History of Covenant House.

It is necessary to understand the history of Covenant House in order to fully understand how "the controversy that surrounded" Father Ritter in February 1990, and prompted him to resign, came to be.

To most people, Father Bruce Ritter was, until recently, Covenant House. The perception reflected a reality: Father Ritter, a Franciscan priest, spent over 20 years creating and building Covenant House. He also controlled it during that time as a practical matter and, during most of that time, as a legal matter as well.

In 1968, Father Ritter began sheltering young people on the Lower East Side of New York City. Initially, he provided shelter to half a dozen young people at his apartment. His efforts grew, and in 1972, Covenant House was incorporated. At that time, there were about 20 staff members and Covenant House operated only in New York.

Covenant House was established with the knowledge and explicit permission of Father Ritter's religious superiors in his Franciscan Order. In the early years, the Order provided financial support and there was consideration of a formal affiliation, as described herein. The head of the Order has also served on the Board. But otherwise, although Catholic in tradition and philosophy, there was never a formal relationship between Covenant House and the Catholic Church or the Archdiocese of New York.

##### 1. Early Corporate Structure.

Covenant House was incorporated by Father Ritter on November 14, 1972, under the New York Not-for-Profit Corporation Law. Father Ritter was one of the three initial directors as well as the executive director or President.<sup>5</sup> Covenant House had a self-perpetuating Board of Directors, and therefore, from time to time, the members of the Board of Directors elected their own successors.

In May 1973, Father Ritter resigned as a member of the Board but continued to serve as President and as chairman of the meetings of the Board. The minutes state that Father Ritter "wished to resign to lessen the conflict between his role as a board member [and] his other responsibilities as executive officer . . .". One reason may have been that Covenant House had contracts with New York City for foster care and the applicable City regulations prohibited compensation to Board members.

The minutes of the November 14, 1973, meeting state that Father Ritter "felt that the most important development of this year was the independence Covenant House had achieved from himself". By all other accounts, however, Father Ritter continued to be the driving and inspiring force behind the development of Covenant House, as well as its full-time President.

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<sup>5</sup> The titles "executive director" and "President" were used at different times to refer to the same position; for convenience, "President" will be used herein.

## 2. 1975: Father Ritter Becomes Sole Member.

In 1975, the By-laws of Covenant House were amended to give Father Ritter full legal control over the organization. According to the minutes, the background to this was Father Ritter's suggestion that he might leave. The minutes of the February 12, 1975, meeting of the Board state that Father Ritter "informed the Board that he intended to resign as Executive Director of Covenant House some time during [1976]". At that time, Covenant House received substantial financial support from Father Ritter's Franciscan Order. Father Ritter said that the Franciscans wanted some assurance that if he left Covenant House, the directors would not, according to the minutes, "adopt policies that would embarrass the Order (as, for example, on the issue of abortion)". The directors considered whether to affiliate Covenant House formally with the Order. However, some directors were concerned whether Covenant House would be able to terminate such an affiliation at a later date, particularly if the organization was able to become financially independent, and whether the directors would lose too much authority.

We have been told that some directors wanted Covenant House to challenge the Church's position on birth control and abortion at this time and Father Ritter refused. This dispute as well as the overriding issue of succession may have led to his determination to put the Franciscans or himself in full control of Covenant House.

On June 25, 1975, Father Ritter persuaded the Board of Directors to amend the By-laws of Covenant House to create members. The new By-laws provided that the members would consist of the incorporator, who was Father Ritter, and any persons subsequently elected a member by the unanimous vote of the existing members. The By-laws also provided that the members would have the sole authority to elect and remove, with or without cause at any time, the directors of Covenant House, and would have the sole power to amend the By-laws. A subsequent amendment provided that the members had the sole authority to elect and remove, with or without cause, the officers of Covenant House as well.

Father Ritter never elected any other person as a member and these By-law provisions were not changed until March of 1990. Thus, from 1975 until he resigned, Father Ritter had complete legal as well as day-to-day operational control of Covenant House by virtue of his roles as sole member, founder and President, not to mention by force of his personality and abilities.

The membership structure is not uncommon for New York not-for-profit corporations. For example, many of the corporations that are affiliated with the Archdiocese of New York are membership corporations with the Archbishop of New York or his representative as one of the members.

However, there are obvious problems with the "sole member" form of organization where the sole member is an individual, particularly where the sole member has the power to appoint and remove, with or without cause, the directors and officers. Although the Board of Directors continues to have fiduciary obligations, the Board clearly acts at the pleasure of the sole member. Although the officers technically report to the Board, they too serve at the pleasure of the sole member. The potential for abuse is exacerbated when, as in the case of Covenant House, the sole member also acts as president of the Corporation. The Board's authority in the final analysis is illusory and, consequently, its sense of responsibility may be diminished.



### 3. The 1980s: Rapid Expansion.

The fact that Father Ritter controlled Covenant House throughout this time is only part of the story. In addition, "his" organization grew at an incredible rate in serving an urgent—and also growing—need: young people who otherwise had no place to go. Whether or not one agrees with Covenant House's methods in sheltering young people—and there are those who do not—the fact remains that it became, by any reasonable measure, the largest and best known private child sheltering agency in the world by the end of the 1980s, and it filled a critical need not met by the government, the churches or existing social service agencies.

By 1980, Covenant House was serving young people in New York only with approximately 250 staff members and a budget of approximately \$8 million. By 1985, the budget had grown to approximately \$30 million. By 1989, Covenant House was serving approximately 25,000 young people a year at locations in fifteen cities and six countries, with approximately 1,700 employees and a budget of approximately \$85 million. It also handled over 120,000 crisis (and a total of one million) calls a year on a toll-free hotline. On February 8, 1990, *The New York Times* reported that Covenant House annually spent three times the amount spent by the United States government on similar programs. Its phenomenal growth was fueled by a professional direct mail operation that spread Father Ritter's identity and message to millions. As Covenant House expanded to new locations, new subsidiaries were formed which, though technically run by their own boards, were controlled by the parent entity, and thus by Father Ritter.

The environment and confidence created by such growth, coupled with the control by Father Ritter, should be kept in mind in trying to understand what happened and why.

We believe many of the problems described in this report might not have occurred, or might have been identified and corrected sooner, had there been a structure in which the Board had true authority. As it was, if Father Ritter initiated or approved a transaction, a staff member was unlikely to feel that it was necessary to inform or obtain the approval of the Board or to question whether the transaction conflicted with stated policies. And because the directors were appointed by Father Ritter and served at his pleasure, they may have perceived their role to be advisory more than supervisory. Moreover, staff and directors apparently saw no need or were reluctant to challenge Father Ritter's judgment because his efforts were so successful.

We acknowledge, however, that it is easy to draw the conclusion today that a different structure was needed; it is very difficult to say whether, and at what point in the past, a different structure would have been on balance beneficial. What would have been the costs, if any, of such a structure, particularly in the early days? Wasn't Father Ritter entitled to control the development of the organization he founded? Would he have been as committed to Covenant House if he had not had such control? And without his commitment and effort, what would have happened to the thousands of young people—Covenant House estimates the number is more than 200,000 since 1972—who have been served by Covenant House?

No one can answer these questions. Instead, we believe that the proper question for the Board and others who care about Covenant House and the needs it serves is, what measures should be taken, in view of where Covenant House is today, to minimize the risk that similar problems arise again. Those who have investigated allegations or reviewed procedures at Covenant House have addressed this question. Many steps have already been taken, as set forth in this Report.

## B. The Restructuring of Covenant House.

### 1. The Transfer of Power.

In 1984, Father Ritter, apparently concerned about what would happen to Covenant House upon his death, created a new trust called the Covenant House Membership Charitable Trust. The original trust instrument stated that Father Ritter was both the donor and the trustee of the trust and that he transferred his membership certificate in Covenant House to the trust. However, no such certificate ever existed, and no other property was donated to the trust.

The trust instrument, which was initially revocable, provided that, upon the death of Father Ritter, the then current members of the Covenant House Board of Directors would act as the trustees of the trust. The trust instrument also provided that the head of Father Ritter's Franciscan Order, known as the Provincial of the Immaculate Conception Province of the Order of Friars Minor Conventual ("the Provincial"), or his delegate would at all times be a trustee with the right to veto, or take action to correct, any actions of the trustees deemed by the Provincial to be "contrary to the official teachings of the Roman Catholic Church".

When Father Ritter resigned as President of Covenant House on February 27, 1990, he did not resign as sole member, apparently because he thought he had already transferred his membership to the trust. Instead, he amended the membership trust in an attempt to require Covenant House to observe certain policies in perpetuity.<sup>6</sup> The amendments purported to make the trust irrevocable. In addition, Father Ritter deleted the provisions making the Provincial a trustee; only the directors would become the trustees. However, he also provided as follows: first, the purpose of the trust was to "maintain, in perpetuity, the Covenant House policy of 'open intake'"<sup>7</sup> and second, the trustees shall "at all times elect as President and Chief Executive Officer of Covenant House a Roman Catholic priest, nun or brother". He thereupon resigned as trustee of the membership trust on February 27, 1990.

However, neither the Covenant House certificate of incorporation nor By-laws permitted transfers of memberships, and even if transfers were permitted, no membership certificate was ever issued or delivered to the trust and therefore there was no trust corpus.<sup>8</sup> As a result, and apparently unintentionally, Father Ritter was technically still the sole member of Covenant House, and only he could elect other members or amend the By-laws to transfer the powers vested in the member.

After this matter was brought to the attention of Father Ritter's counsel, Father Ritter agreed on March 19, 1990, to execute a new instrument whereby he amended the By-laws to permit the directors to amend the By-laws and also incorporated into the By-laws certain provisions that could only be changed by a unanimous vote of the directors. These provisions were the two provisions concerning open intake and the selection of the President set forth in

<sup>6</sup> Father Ritter also amended the trust on November 16, 1988, to delete the veto power of the Provincial as trustee and to provide that the other trustees should give discretion to the Provincial's views.

<sup>7</sup> "Open intake" is a policy whereby no young person is ever turned away on the first visit to Covenant House and only serious misconduct or refusal to make use of proffered services limits repeat visits. It has been a hallmark of Covenant House's programs and is discussed in more detail in the report of the Child Welfare League summarized in Part V of this report.

<sup>8</sup> In addition, the directors of Covenant House never accepted their appointment as trustees of the trust as required by the terms of the trust and thus never became the trustees.

the amended membership trust as described above, as well as a provision requiring the directors to have at all times "due regard for the Roman Catholic origins of Covenant House and the Roman Catholic traditions and philosophy that have guided the administration of Covenant House and its subsidiary and affiliated organizations". In addition, Father Ritter required that the Provincial, or his designee, be entitled to serve as a director at all times. He then resigned as the sole member of Covenant House, as well as of the affiliates of which he was a member, pursuant to that instrument.

## **2. The New Structure.**

On March 24, 1990, pursuant to the powers given the Board by Father Ritter in the March 19, 1990, amendment and letter of resignation, the Board of Directors amended the By-laws to eliminate members and to provide that the powers formerly vested in the members, including the power to appoint and remove directors and officers, were now vested in the directors. The By-laws were revised further and restated in May. The current By-laws now provide in part as follows:

(i) The business of Covenant House shall be managed by a Board of Directors consisting of not less than six persons each of whom shall be at least 21 years of age. No employee of Covenant House or any affiliate of it, or any immediate family member of any such employee, may be a director. Directors are not entitled to compensation other than for expenses.

(ii) To insure continuity as well as change on the Board, the Board of Directors will be divided into three classes commencing with the annual meeting in November 1990. Directors will be elected for staggered, three-year terms. No person may serve for more than two consecutive three-year terms. In addition, directors incumbent as of March 23, 1990, may serve only one additional term commencing in November 1990.

(iii) All officers shall be elected or appointed by the Board, shall report to the Board and may be removed by the Board, with or without cause.

(iv) No loan may be made without Board authorization. Loans to directors or officers, or to any corporation or association in which a director or officer holds a significant financial interest, are prohibited. No director or officer may participate in or benefit from any transaction involving Covenant House unless the same has been approved by a two-thirds vote of the directors excluding the interested director.

(v) Article XII of the By-laws sets forth the provisions contained in Father Ritter's March 19, 1990, letter of resignation: Covenant House shall always observe "open intake"; the President of Covenant House shall always be a Roman Catholic priest, nun or brother; the directors shall have "due regard" for the Catholic origins and traditions of Covenant House; and the Provincial of the Immaculate Conception Province of Order Minor Conventuals is entitled to be a director at all times. Those provisions can only be changed by unanimous vote of the directors.

## **3. Recomposition of the Board of Directors.**

In 1989 the Board of Directors consisted of eighteen people. That Board met six times in 1989. By March of 1990, eight of those members had resigned. Mr. Macchiarola resigned when he became the Acting President. Dr. James T. Kennedy and Mr. James J. Maguire, who reportedly received loans from the Franciscan Charitable Trust as described below, resigned in early March 1990. The other five directors have since resigned for various reasons.

In March 1990, the remaining Board members began to reconstitute the Board. As of July 31, 1990, the Board has met thirteen times in 1990. The terms of all current members expire in November of 1990. The current members are the following:

*Incumbent Members as of March 23, 1990:*

Mr. Ralph A. Pfeiffer, Jr., Chairman  
Chairman of the Board (ret.)  
IBM World Trade

Mr. Denis P. Coleman, Jr., Vice Chairman  
Private Investor

Ms. Ellen Levine  
SVP/Editor-In-Chief  
Woman's Day Magazine

Mr. Robert C. Macauley  
President and CEO  
AmeriCares Foundation

Fr. Conall McHugh, O.F.M., Conv.  
Minister Provincial  
Province House—Moroccan Martyrs Friary

Mr. Raymond J. Petersen  
Executive Vice President  
Hearst Magazines

Mr. Richard J. Schmeelk  
President  
C.A.I. Advisors, Inc.

Edward L. Shaw, Jr., Esq.  
Executive Vice President and General Counsel  
The Chase Manhattan Corporation

Mr. William E. Simon, Sr.  
Chairman and CEO  
WSGP International, Inc.

Mr. Clarence N. Wood  
Director/Chief Executive Officer  
Human Relations Task Force  
The Chicago Community Trust

*New Members Elected Since March 23, 1990:<sup>9</sup>*

Mr. William Aramony  
President  
United Way of America

<sup>9</sup> Mr. William J. Flynn was elected to the Board on March 27, 1990, and resigned on July 31, 1990.

Fr. Timothy S. Healy, S.J.  
President  
The New York Public Library

Everlena M. Holmes, Ed.D.  
Dean  
School of Health Sciences  
Hunter College/NY

Thomas Huhn  
President and CEO  
Alexander Proudfoot PLC

Ralph I. Lopez, M.D.  
Associate Professor of Pediatrics  
New York Hospital/Cornell Medical Center

William W. K. Rich  
Vice President  
IBM

Sr. Margaret Sweeney  
former President and CEO  
St. Vincent's Hospital & Medical Center of New York

Ms. Nancy Dickerson Whitehead  
President  
Television Corporation of America  
TV Commentator/Author

#### **4. The Search for a New President.**

After Father Ritter resigned on February 27, 1990, James Harnett, who was then Chief Operating Officer of Covenant House, was appointed Acting President until a new interim President could be selected. Following that appointment, Ralph A. Pfeiffer, Jr., Chairman of the Board of Directors, Denis P. Coleman, Vice Chairman of the Board, and Robert C. Macauley, former Chairman of the Board, met with John Cardinal O'Connor, the Archbishop of New York, and requested the Cardinal's assistance in finding an interim President. At the same time the Board of Directors appointed a Search Committee chaired by Mr. Pfeiffer and consisting of other members of the Board as well as James E. Burke, former Chairman and Chief Executive Officer of Johnson & Johnson, Joan Ganz Cooney, President of Children's Television Workshop, Bishop Emerson Moore, Auxiliary Bishop of New York and Rev. Msgr. James J. Murray, Executive Director of Catholic Charities, to find a permanent new President.

On March 23, 1990, Cardinal O'Connor offered to make available to Covenant House Monsignor William J. Toohy and Monsignor Timothy A. McDonnell to serve as Acting President and Deputy Acting President, respectively, for a period not to exceed nine months until a permanent President was selected. Monsignor Toohy was then the Director of the Archdiocesan Office of Legal Affairs and the Associate Executive Director of Catholic Charities. Monsignor McDonnell was then the Episcopal Vicar of West Manhattan and the Pastor of Holy Trinity Church. Cardinal O'Connor proposed that the two men not be compensated by Covenant House as they would continue to receive their normal stipend from the Archdiocese. After discussions with the two men, the Covenant House Board of Directors voted on March 24, 1990, to retain Monsignors Toohy and McDonnell as Acting President and

Deputy Acting President, commencing March 27, 1990, for nine months or until a permanent President and Deputy President are selected. The Board also reappointed Mr. Harnett to his position as Chief Operating Officer.

Covenant House retained the firm of Russell Reynolds Associates, Inc. to assist the Search Committee. The Committee met six times and interviewed a number of potential candidates.

On July 10, 1990, the Covenant House Board appointed Sister Mary Rose McGeady of the Daughters of Charity of St. Vincent de Paul, Northeast Province, as the new President of Covenant House, effective September 1, 1990. Sister McGeady is currently Associate Executive Director of Catholic Charities of the Diocese of Brooklyn.

##### 5. Covenant House Programs Today.

Covenant House offers shelter, crisis intervention and other services to runaway and abandoned young people under the age of 21. Covenant House's crisis centers offer free immediate shelter, food, clothing, counselling and medical attention to runaway and homeless youth. Covenant House uses outreach vans to contact young people who otherwise might not seek services on their own. It also provides separate residential programs for pregnant and parenting adolescent women and their children who are homeless as well as a long-term residential program that seeks to enable homeless adolescents to develop the skills for independent living. Covenant House offers a variety of health services, including a substance abuse program. In addition, it offers a toll-free hotline.

As noted above, Covenant House is an umbrella organization with many operating subsidiaries. For example, in New York the 41st Street crisis center is operated by Under 21, a Covenant House subsidiary. Each of the cities and countries in which Covenant House operates has its own operating subsidiary. All of those subsidiaries are today controlled by Covenant House; in most cases, Covenant House is the sole member of each such corporation.<sup>10</sup> Each subsidiary corporation has its own Board of Directors, the members of which are appointed by the Covenant House Board of Directors.

The following subsidiaries and programs currently operate in the New York metropolitan area:

(i) *Under 21*—the principal operating subsidiary in New York, providing all the New York programs other than the transitional living program (Rights of Passage) and the Nineline service. The programs of Under 21 include:

- (a) the crisis center at 41st Street, at which approximately 300 young people receive shelter each night;
- (b) the outreach services;
- (c) the mother-child program at 427 W. 52nd Street, which is the residential program for young mothers; and
- (d) the substance abuse program.

(ii) *Rights of Passage*—a long-term residential program in New York. Rights of Passage residents live at the 17th Street facility for 18 months to further their education,

<sup>10</sup> Covenant International Foundation ("CIF"), a subsidiary of Covenant House, is the sole member or a member of the international subsidiaries. In order to comply with the requirements of foreign laws, some of the international subsidiaries have individuals who are members in addition to CIF. However, Covenant House effectively still controls those entities.

embark on career track jobs and learn other skills necessary for independent living. Rights of Passage was operated as part of Under 21 until November 1989, when it became a separate corporate entity. However, for operational efficiencies, it will be merged back into Under 21.

(iii) *Testamentum*—a subsidiary of Covenant House that acquires and holds property. It was originally set up for the purpose of owning group homes and leasing them to Covenant House. Title to some of the real property owned by Covenant House in New York City is today held by Testamentum.<sup>11</sup>

(iv) *The Faith Community*—a non-incorporated community of persons who agree to work for Covenant House for at least one year for a stipend of \$12 per week plus room, board and insurance. Members of the Faith Community live at a Covenant House facility, pray three hours a day, are trained as counselors and work with the residents. There are approximately 100 people in the Faith Community at any given time.

(v) *Nineline*—a toll-free crisis hotline for adolescents and their families. It operates 24 hours per day, seven days per week from New York. Nineline operators are trained in crisis management and counseling and have access to a database of more than 20,000 social service providers throughout the United States and Canada.

The following operating subsidiaries offer crisis centers and other services outside of New York in the cities noted:

- (i) Covenant House Alaska (Anchorage);
- (ii) Covenant House California (Los Angeles);
- (iii) Covenant House Florida (Ft. Lauderdale);
- (iv) Covenant House New Jersey (outreach only in Newark, Atlantic City and Trenton);
- (v) Covenant House New Orleans (New Orleans);
- (vi) Covenant House Texas (Houston);
- (vii) Covenant House Canada (Toronto);
- (viii) Casa Alianza Guatemala (Guatemala City, Antigua);
- (ix) Casa Alianza Honduras (Tegucigalpa);
- (x) Casa Alianza Mexico (Mexico City); and
- (xi) Casa Alianza Panama (Panama City).

Covenant House also established subsidiaries in several other locations, including Washington, D.C., which are not operational at this time.

Until recently, Covenant House also operated the following programs:

(i) *Dove Services, Inc.*—was established in 1982 as a for-profit corporation for the purpose of employing Covenant House residents in New York City to act as messengers.

<sup>11</sup> Testamentum holds title to Covenant House properties at 447 West 47th Street, 218 West 15th Street, Eighth Avenue and 44th Street and, through a subsidiary, 688 Eighth Avenue, all in New York City.

Because of operational and other problems described later in this report, the Dove Messenger Service has been terminated.

(ii) *The Safe House Program*—conceived in the early 1980s for the purpose of being able to protect the identity and confidentiality of young people who were believed to be in danger and who needed such protection. This program was not a well-defined or well-understood program at Covenant House, but we have established that it was discussed at a meeting held between Covenant House officials and various prosecutors and police personnel in New York City in 1985. No more than two or three young people were considered to be a part of the Safe House Program at any given time. The professional staff and, more important, Father Ritter decided which youth went into the Safe House Program. Because of the allegations leading to this investigation, especially those relating to Kevin Kite, the Safe House Program was terminated by the Covenant House Board of Directors on March 7, 1990.

(iii) *Institute for Youth Advocacy*—engaged in legal advocacy for young people in the courts and before Congress and state legislatures. The Institute lobbied for legislation against child pornography and for services for runaway children and assisted in court cases, including some before the United States Supreme Court, on child pornography. The Institute was run by Gregory Loken, who resigned on March 6, 1990. No decision has been made as to whether to continue the Institute.

## 6. Parent-Subsidiary Relationships.

There have been on-going discussions within Covenant House among the senior management in New York and the executive directors of the operating subsidiaries on the relationship between the parent entity and the subsidiaries. The relationship has changed over the years as Covenant House has evolved.

The various Covenant House programs that are today separately incorporated were launched and financed through the efforts of the New York staff. The parent entity has provided all or most of the revenue to finance the subsidiaries' operations. Father Ritter was a director of most of the subsidiaries. He effectively controlled those subsidiaries until he resigned, because he had the power to appoint the directors of Covenant House and those directors had the power to appoint and remove the subsidiary directors and officers. The subsidiary boards have been primarily composed of local residents.

The New York office has provided other support services in addition to fundraising. Historically, there has also been some exchange of staff among the various locations.

In connection with the restructuring of Covenant House, senior management and the executive directors are in the process of reviewing this relationship. The Board of Directors asked Mr. Allen Janger of the Conference Board and other organizational experts to assist in this review. There is a desire to maintain consistency in policies, objectives and strategies among the Covenant House entities while at the same time delegating to the subsidiaries the maximum authority possible. There is also a desire to ensure that subsidiary boards of directors have the authority as well as the responsibility to manage local affairs to the fullest extent possible. As the changes in structure and management take effect in New York, it is expected that this review of parent-subsidiary relationships will be completed.



## PART II

### REPORT OF KROLL ASSOCIATES ON ALLEGATIONS OF SEXUAL MISCONDUCT AND FINANCIAL AND OTHER IMPROPRIETIES

#### A. The Methodology of the Investigation.

Kroll Associates ("Kroll") is a worldwide private investigative agency of which Robert J. McGuire, a lawyer and former Police Commissioner of the City of New York, is Senior Managing Director. In fulfilling its mandate from the Covenant House Board of Directors to investigate "any and all allegations of misconduct within the Covenant House organization . . .",<sup>12</sup> Kroll Associates assigned, in addition to Mr. McGuire, six investigators, consisting of two former FBI agents, two former New York City Police detectives and two forensic accountants. Kroll also assigned two researchers. Kroll has investigated every allegation of misconduct involving Covenant House of which it has been made aware. It had complete access to all Covenant House books and records and Covenant House Board members, officers and staff were directed to cooperate fully with its investigation. Certain persons declined to be interviewed by Kroll Associates, namely, Father Ritter, and, except with respect to limited areas, the Franciscans.<sup>13</sup>

#### B. Allegations of Sexual Misconduct.

Allegations that Father Ritter engaged in sexual activities with Covenant House residents, if true, betray the trust of those to whom Covenant House stands in loco parentis, as well as those who contribute to its support.

Also very serious are allegations made to Kroll during the course of its investigation of sexual advances by Father Ritter toward members of the Covenant House Faith Community.<sup>14</sup> As President of Covenant House, Father Ritter stood in a superior/subordinate relationship with all other staff members and volunteers. While perhaps not illegal, sexual activity between those who, in a job setting, are in the relationship of superior and subordinate is fraught with peril.

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<sup>12</sup> See page 2, *supra*.

<sup>13</sup> By letter dated June 29, 1990, Richard J. Concannon, counsel to the Franciscan Order, stated that the Franciscans declined to be interviewed except that Kroll could interview Father Conall McHugh, OFM (Conv.), the Provincial of the Franciscan Order and a member of the Covenant House Board, but only in connection with his Board activities. As to other matters, including those relating to allegations concerning Father Ritter, Mr. Concannon stated:

"As to the matters the Franciscans are not prepared to discuss, involving either communications with parties to whom they had given assurances of absolute confidentiality or internal matters among members of the Franciscan Order, further disclosure of any of these matters would violate confidences to which the Franciscans are bound and will not violate. The 'inquiry' was part and parcel of the process by which the Franciscans dealt with their pastoral and apostolic concerns for those people who communicated with them, as well as for Father Ritter, Covenant House, and the community it serves. . . ."

Kroll interviewed Father McHugh in accordance with the above limitations.

<sup>14</sup> See page 13, *supra*, for a description of the Faith Community.

Accordingly, a very large part of the investigative effort has been devoted to these allegations. In the course of investigating the allegations made publicly, Kroll heard several allegations by other persons of essentially similar conduct, which it also investigated. Kroll interviewed, sometimes more than once, every person it has been able to find who has made any such allegation<sup>15</sup> and many others who may have had relevant knowledge or information. Kroll interviewed over 150 people, including Covenant House officers, directors, staff, present and former residents, members of the Faith Community and others in connection with these allegations. It had the full cooperation of the Manhattan District Attorney's office.

Throughout its investigation, Kroll has had great concern for the impact of the investigation on Covenant House, its dedicated staff, its volunteers, its supporters, the young people it shelters and Father Ritter. This undertaking was an awesome responsibility that no professional would take lightly. Nonetheless, Kroll's guiding rule has been to seek the truth, to be careful and to treat each person interviewed with courtesy and dignity.

For reasons of propriety and privacy this report does not include all of the details of the information that Kroll has gathered. There is a serious potential that innocent people might be gratuitously injured by such disclosure. Mr. McGuire has, however, presented such information to the Board of Directors and the Oversight Committee.<sup>16</sup>

It is not the purpose or intent of this report to make a legal determination of guilt or innocence concerning these allegations. No civil or criminal charges are being made. However, Covenant House depends on public trust and support, which has been shaken by the allegations. To the young people it cares for, to its staff, and to others who have given or who may give their support, Covenant House has a duty fully to investigate the allegations, to report its findings and to take appropriate action where required.

The cumulative evidence discovered by Kroll in the course of its investigation that Father Ritter engaged in sexual activities with certain residents and made sexual advances toward certain members of the Faith Community is extensive. Five former residents have stated to Kroll that they engaged in sexual activity with Father Ritter. Another former resident stated to Kroll that Father Ritter made a sexual advance, which advance the resident rebuffed. A different former resident acknowledged having shared a bed with Father Ritter, a fact that Kroll has independently confirmed, but denied any sexual activity. Four members of the Faith Community stated to Kroll that Father Ritter made sexual advances toward them.<sup>17</sup> Four other former residents, not referred to above, were said to have engaged in sexual activity with Father Ritter. Kroll could not confirm the substance of those allegations because one of those four residents is reportedly deceased and the other three could not be located. However, Kroll did speak with persons who stated that those four residents made such allegations to them essentially contemporaneously with the alleged events, which date back over the last twenty years.

Moreover, virtually all the former residents and Faith Community members who told Kroll that Father Ritter engaged in sexual activity with, or made sexual advances toward, them had

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<sup>15</sup> It has not been able to find one former resident who was reported in the press to have made such an allegation.

<sup>16</sup> Mr. McGuire has also maintained full and regular communication with the offices of the Manhattan District Attorney and the New York Attorney General about the investigation.

<sup>17</sup> While it is obviously possible to misconstrue innocent physical contact as a "sexual advance" under certain circumstances, the activities described, if believed, clearly and unambiguously constituted sexual advances.

also made the same allegations to other persons essentially contemporaneously with the alleged events and, more important, long before the first public disclosure of allegations relating to Father Ritter. Kroll was able to locate and speak with many of those other persons, who confirmed that they heard the allegations.<sup>18</sup> We note this fact because it suggests that the allegations cannot be dismissed as mere "copy cat" allegations. Moreover, all of the allegations taken together show a generally consistent pattern of conduct. They also cover a long period of time, covering events alleged to have taken place between 1970 and 1989.

Although he refused to be interviewed by Kroll during the course of this investigation,<sup>19</sup> Father Ritter has publicly denied that he ever engaged in sexual relations with Covenant House residents, and that denial was given serious consideration. None of the allegations, when viewed individually, can be proved beyond any question. There is no physical corroboration. Indeed, the private nature of the activity alleged made it virtually impossible for there to be such corroboration.

Nevertheless, in view of the cumulative evidence found by Kroll supporting the allegations of sexual misconduct, it is our opinion that, if Father Ritter had not resigned, the termination of the relationship between him and Covenant House would have been required. Even if one were to accept Father Ritter's explanation of the events, the same conclusion would have been justified solely on the basis of the fact that, as discussed below, Father Ritter exercised unacceptably poor judgment in his relations with certain residents.

In that connection, there is no dispute that on many occasions, Father Ritter spent the evening hours in his apartment at the Covenant House facility on 41st Street alone with residents, many of whom had been prostitutes with troubled sexual pasts. According to published reports, Father Ritter, through a spokesperson, admitted that he spent the night with one of them on at least two occasions, once at a hotel and once at his weekend cottage. He claimed to have been "mentoring" to that person. Even if nothing untoward happened, such behavior, however well intentioned Father Ritter might claim it to have been, exposed him to charges of improper conduct that are impossible totally to rebut after the fact. In his press conference, Father Ritter has also admitted that he made a mistake in judgment, and that there was an appearance of impropriety in his actions. It was irresponsible for Father Ritter, President of an organization entrusted with the welfare of young people, to have put himself in such a defenseless position.

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<sup>18</sup> For example, one former resident reported to a parent having engaged in sexual activity with Father Ritter, and another made a similar report to a therapist. Both reports were made some time ago, and have been confirmed to Kroll by the parent and the therapist.

<sup>19</sup> On July 5, 1990, Father Ritter's counsel, Stanley S. Arkin, advised Mr. McGuire that Father Ritter would not agree to be interviewed in connection with this investigation. Mr. Arkin stated:

"As you know, Father Ritter has on a number of occasions publicly denied the truth of the full range of accusations made against him in the past six months. In light of these denials, I see no constructive purpose to be served by submitting him to further inquiry now.

"Throughout his 22 years as the head of Covenant House, Father Ritter worked unstintingly for nothing but the welfare of the country's homeless and desperate street children. He and Covenant House performed untold good for hundreds of thousands of such children. To subject him to further questioning now would sorely deprecate the dignity and respect to which a man of his stature and deeds is entitled."

Two subsidiary questions must also be answered. First, was anyone else at Covenant House, now or formerly on staff, involved in sexual activity with residents? Kroll Associates investigated rumors and reports of such activity and, except as described in the next paragraph, has found no evidence to support them.

In the spring of 1990, one employee and one former employee of one of Covenant House's subsidiaries in Central America were arrested on charges of child abuse based on information concerning incidents in 1988 and 1989 recently discovered by Covenant House management and brought by them to the attention of the authorities.<sup>20</sup> In addition, supervisors of Covenant House programs have informed us of a few allegations of possible sexual advances by employees toward residents. The incidents reported were isolated, unrelated and sporadic. In each case, we have found that supervisors and management investigated and dealt with the allegations promptly and professionally. With the exception of the matters noted herein, Kroll Associates has not found any other evidence to suggest that such activity was anything other than isolated and atypical, or that it was tolerated or condoned at any Covenant House program.

We believe that there is inevitably a risk for an organization like Covenant House that isolated incidents of sexual activity between employees and residents will occur, particularly in view of the size and ages of its staff and client population. There are about 1,700 staff members dealing with 25,000 young people per year. Approximately 66% of the residents are between the ages of 18 and 21; approximately 95% are between the ages of 16 and 21. The issue should be whether procedures and standards exist to minimize such risk and to detect and respond to any problems. At Covenant House, such activity is sufficient grounds for immediate dismissal. We believe that the sparsity of other allegations of such behavior and the professional manner in which they were reported and dealt with is evidence of the strength and integrity of Covenant House's programs.

Second, if the allegations about Father Ritter were so extensive, why did they not come to light until now? The investigation by Kroll has revealed that isolated allegations relating to Father Ritter's sexual activities were in fact made on a few separate occasions in the past to a few senior staff members at Covenant House, as well as to the Franciscans on at least one occasion.<sup>21</sup> We do not know what action, if any, the Franciscans took, but the staff members who heard those allegations told Kroll that they reported the allegations directly to Father Ritter, who summarily dismissed or denied the allegations. Rumors of such activity were also apparently circulating as early as the 1970s among certain child care workers unconnected to Covenant House. Kroll has been advised that because of those rumors certain child care workers who dealt with runaways in the early 1970s determined not to refer certain young people to Father Ritter's program.

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<sup>20</sup> Several staff members of the subsidiary were suspended for other misconduct and inadequate management; some of those staff subsequently resigned and others were discharged. The subsidiary is now operating under new management and, based upon an on-site inspection by Kroll representatives, Kroll is satisfied that all necessary and appropriate steps are being taken.

<sup>21</sup> In his June 29, 1990, letter, Mr. Concannon, counsel to the Franciscans, stated:

"With respect to prior allegations against Father Ritter, the Franciscans have no knowledge of any such allegations apart from the one in 1983 which you mentioned and which was referred to in the Covenant House article in the May 18, 1990 issue of *Commonweal*. Again, the Franciscans would decline to discuss further the 1983 allegation because of their assurances of confidentiality. They have not, of course, revealed anything regarding that matter to anyone outside the Franciscans. . . ."

Father Ritter was a charismatic leader. He was not only the President and founder of Covenant House, he *was* Covenant House to many. He was also a close friend to many on the staff. It is, therefore, understandable that a staff member who heard such a single isolated allegation would not have believed it, especially in the face of Father Ritter's denial. To question him on such an intimate, troubling matter was difficult enough; to challenge him in the face of a denial would have been extremely difficult. Moreover, at Covenant House, there was no formal procedure or mechanism in place for collecting or investigating such allegations or for taking such allegations outside the staff where they could be independently and objectively reviewed. Although there was a Board of Directors, the members, after 1975, were all appointed by Father Ritter, and may not have been perceived by those who heard allegations as being independent from him or as having any true authority.

### **Recent Reforms.**

The elimination of the sole member structure of the corporation and the reestablishment of the full authority of the Board will undoubtedly help to create a structure in which allegations of this type can be reported and investigated effectively. In addition, on March 14, 1990, the Covenant House Board of Directors adopted a policy providing that all allegations of serious misconduct involving senior officials be reported immediately to the Chairman of the Board and the General Counsel, as well as to the President in certain cases. The policy, which applies to all employees of Covenant House and of all subsidiaries, provides in pertinent part as follows:

“Any allegation of serious misconduct involving any past or present employee, volunteer, or member of the Board of Directors, must be immediately reported to the appropriate level of the Board of Directors or management.

“Serious misconduct includes but is not limited to:

- “(a) physical and mental abuse or any sexual activity with clients;
- “(b) endangering the lives or welfare of clients;
- “(c) any and all misappropriation or misuse of funds.”

The policy sets forth specific reporting procedures. Allegations involving the President or Chief Executive Officer (of Covenant House or any subsidiary) are to be reported to the Chairman of the Board, Vice Chairman and General Counsel of Covenant House. Allegations involving a board member are to be reported to the chairperson of that board (unless accused), President and Executive Director. Allegations concerning other employees are to be reported to the appropriate Executive Director and Chief Operating Officer. This Covenant House policy, which provides that “[f]ailure to follow the procedures of this policy may result in disciplinary action up to or including termination of employment”, has been distributed to all employees.

### **C. The Franciscan Charitable Trust.**

As noted in “Background to the Investigation”, in 1983 Father Ritter established a trust fund known as the Franciscan Charitable Trust. The Attorney General's office is conducting an independent investigation of that trust. Father Ritter and Edmund Burns, former General Counsel of Covenant House and trustee of the trust, have turned the records pertaining to the trust over to the Attorney General. Because we did not have access to those records, our investigation of the trust is limited and focuses on the involvement of Covenant House with the trust.

## 1. Creation of the Trust.

As described below, the Franciscan Charitable Trust was funded by Father Ritter in part with monies that were paid by Covenant House in respect of his services. Compensation with respect to religious priests, brothers and sisters serving Covenant House in the exercise of their ministry was ordinarily paid to their religious orders. Consistent with this practice, payments in respect of Father Ritter's services as President were made payable to a bank account in the name of the Order Minor Conventual, a shorthand designation of his Order. However, Father Ritter apparently had full discretionary authority over the account, and surplus funds were not forwarded to his Order. We understand that such accounts are not uncommon and are referred to as "extern accounts". Over time, surplus funds in that account, a regular checking account, apparently grew as Father Ritter's salary grew. In addition, funds raised by Father Ritter for his ministry in the 1970s through weekend preaching at different churches may have been deposited in that account.

In 1982, Father Ritter apparently decided to invest some of the surplus funds in that account. He sought guidance from Robert Macauley, then a member of the Covenant House Board of Directors, who states that although he declined to give Father Ritter investment advice, he suggested that Father Ritter might wish to use some of the surplus funds in his account to purchase stock in Greif Bros. Co., a publicly traded Midwest paper products company. Father Ritter, either directly or through his Order Minor Conventual account, purchased approximately 13,300 shares of Greif Bros. stock during 1982 and 1983 in the name of the Order. We believe that the aggregate purchase price was in excess of \$170,000. The trust also acquired additional shares at a later date.

On July 2, 1983, Father Ritter established the Franciscan Charitable Trust.<sup>22</sup> There is no evidence that the Franciscan Order knew of the existence of the trust. The initial donor of the trust was described as "Order Minor Conventual and Covenant House related sponsors" and the original corpus of the trust was apparently the Greif Bros. stock, which Father Ritter periodically transferred to the trust. Father Ritter was the trustee of the trust, which was irrevocable, and Covenant House, and/or "other charitable organizations" were the beneficiaries.

On August 1, 1984, the trust applied to the Internal Revenue Service for Recognition of Exemption under Section 501(c)(3) of the Internal Revenue Code as an organization claiming not to be a private foundation under Section 509(a)(3). That exemption, if granted, would have entitled contributors to the trust to a tax deduction, would have exempted the trust income from federal income tax and would have freed the trust from the limitations imposed on private foundations, including those prohibiting self-dealing, those requiring that a specified percentage of the trust assets be distributed annually and the excise tax on investment income. The purpose of the trust, as described in the IRS filing, was as follows:

"The Franciscan Charitable Trust currently is holding the Immaculate Conception Province of the Order Minor Conventual's Two Hundred Thousand Dollar contribution invested to accumulate a sufficient portfolio to enable it to become operational and implement its charitable activities in supplement and support of Father Bruce Ritter's ministry as reflected in Covenant House's and its subsidiary organizations programs and purposes. For example, from time to time, sexually exploited children come to the

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<sup>22</sup> The legal work necessary to establish the trust was performed by the law firm of Burns, Kennedy, Shilling & O'Shea, then General Counsel to Covenant House. Edmund Burns stated that the trust was created because Father Ritter wanted the Greif Bros. stock out of the control of the Franciscans.

attention of Covenant House in need of confidential 'safe harbor' sanctuaries which are imprudent to provide under the public auspices of Covenant House and its related organizations. Such confidential 'safe harbor' sanctuaries for such sexually exploited youth which come to the attention of Covenant House or its related organizations are a first priority for the Franciscan Charitable Trust, thereby providing a needed confidential resource for children known to Covenant House and its related organizations."<sup>23</sup>

In addition to stating that the purpose of the trust was to support Father Ritter's ministry, the IRS filing listed Covenant House and certain of its subsidiaries as the organizations supported by the trust for purposes of its claim of non-private foundation status under Section 509(a)(3).

The IRS filing further stated that "Covenant House and its related organizations have a significant voice in Franciscan Charitable Trust's investment policies". However, there is no evidence that anyone at Covenant House other than Father Ritter played any role in the trust's "investment policies". There is also no evidence that the trust ever made any disbursements for the purpose of providing "safe harbor sanctuaries for . . . sexually exploited youth".<sup>24</sup>

## 2. Contributions by Covenant House to the Trust.

We understand that the Internal Revenue Service subsequently granted the trust's application for a Recognition of Exemption under Section 501(c)(3).

In 1985, Father Ritter was appointed by the President of the United States to serve on the National Commission on Pornography. Because he was apparently concerned about the public's perception about the amount of his "compensation",<sup>25</sup> which was then approximately \$98,000, he decided to reduce his "compensation" by \$60,000, from \$98,000 to \$38,000. He then instructed Covenant House's Chief Financial Officer, Robert Cardany, to contribute the difference each year to the Franciscan Charitable Trust.

Mr. Cardany stated that he refused to make the payment so long as Father Ritter remained as trustee of the trust. Father Ritter resigned as trustee and designated Mr. Burns as trustee and Covenant House then began to contribute money to the trust.

The first contribution of \$60,000 was made on June 27, 1986. At the same time, Father Ritter told Mr. Cardany he wanted to reduce his salary "retroactively" for the fiscal year ending June 30, 1986, to approximately \$38,000. Accordingly, on June 30, 1986, the last day of the fiscal year, Father Ritter paid Covenant House \$59,831.94 by check drawn on his OMC account and he signed a "Personnel Status Notice" reducing his salary to \$38,000 "retroactive" to July 1, 1985. Although we have not seen the trust books and records or the books and records of the OMC account, we understand that the \$60,000 contribution by Covenant House to the trust just

<sup>23</sup> The reference in the filing to the Order's "Two Hundred Thousand Dollar Contribution" is apparently the Greif Bros. stock originally held in the name of the Order. See page 14 for a discussion of the Safe House program.

<sup>24</sup> We understand from the trustee's counsel that, since the trust's creation, a total of \$230,000 has been transferred from the trust to Father Ritter's OMC account. In March 1990, Covenant House received a \$50,000 check drawn on the OMC account, accompanied by correspondence from Father Ritter stating that this was a contribution from the trust. That was the only contribution that Covenant House received from the trust. In addition, as noted above, Covenant House received a payment of \$59,831.94 on June 30, 1986, from the OMC account.

<sup>25</sup> As noted, compensation in respect of Father Ritter's services was paid to a bank account in the name of his Order. See page 20.

three days earlier was transferred to the OMC account and was then used to make the \$59,831.94 payment back to Covenant House.

Funds were contributed by Covenant House to the trust on the following dates and in the following amounts:

June 27, 1986	\$60,000
September 11, 1986	60,000
October 5, 1987	15,000
November 2, 1987	15,000
December 11, 1987	30,000
January 18, 1989	18,000 <sup>26</sup>
January 25, 1989	42,000
July 20, 1989	60,000
TOTAL	<u>\$300,000</u>

The payments were made pursuant to check request vouchers, sometimes, but not always, signed by Father Ritter and countersigned by John Spanier, Robert Cardany or James Harnett, all Covenant House officers at the time.<sup>27</sup>

There is no evidence that either the existence of the trust or the fact of the annual contribution was made known to the Covenant House Board.<sup>28</sup> Some staff members were apparently aware of the existence of the trust.

### 3. Transactions Between the Trust and Covenant House Board Members.

On two occasions, the trust loaned money to Covenant House Board members. The trust also engaged in real estate transactions with the same board members. In 1986, the trust purchased property in Dutchess County, New York, from James J. Maguire, Jr. In December 1988, the trust loaned Mr. Maguire and his wife approximately \$100,000 and took a mortgage on other property that they owned in Dutchess County, New York, as collateral. The interest rate on the loan was 10½%.<sup>29</sup> Mr. Maguire stated that he asked Father Ritter and Mr. Burns prior to taking the loan whether there was any connection between the trust and Covenant House and that he was told there was none. Mr. Burns states that Mr. Maguire did not ask such a question.

In April 1989, the trust made a purchase money loan of \$90,000 to Dr. James T. Kennedy and his wife, to enable them to purchase from the trust the property in Dutchess County that the trust had acquired from Mr. Maguire in 1986. That loan accrued interest at 10%.

<sup>26</sup> This payment, an odd amount, was made at Father Ritter's specific request because, as he told Mr. Cardany, the trust needed the money to make a specific investment. The contribution was made payable to a special account of Burns, Kennedy, Shilling & O'Shea, the law firm of which the former Covenant House General Counsel is a member. This money was apparently used for a loan to a former Covenant House resident as described below.

<sup>27</sup> Mr. Spanier left Covenant House in June 1990.

<sup>28</sup> Robert Macauley, a member of the Board and former Chairman, stated that he had heard about the existence of the trust but knew none of the details. James J. Maguire, Jr., and Dr. James T. Kennedy, members of the Board, received loans from the trust as described below.

<sup>29</sup> The land acquired in 1986 and the mortgage were held by a corporation called Hudson River Views Inc., a corporation apparently formed and owned by the trust for this purpose.



Around the time that the existence of the trust and the loans were made known to the Covenant House Board on March 3, 1990, Robert Macauley purchased the two mortgages from the trust.<sup>30</sup> He transferred \$300,000 by wire from his account at the Society Bank in Cleveland, Ohio, to Mr. Burns' law firm, and after the mortgages were purchased, the remainder, \$96,850, was returned to Mr. Macauley on March 15, 1990. The Maguire mortgage has since been paid with interest. The Kennedy mortgage remains outstanding.

#### **4. Other Trust Transactions.**

In the fall of 1987, the trust reportedly made, through a foundation run by a former member of the board of one of Covenant House's subsidiaries, a loan of approximately \$131,000 to Cassie Wallace, Father Ritter's sister, to enable her to purchase a house. The loan was an interest-bearing loan, was secured, and was subsequently repaid by Ms. Wallace and, in part, by Father Ritter.

On another occasion, in 1988, the trust made an interest-bearing loan of approximately \$17,000 to a former Covenant House resident, who was then working as a long-distance truck driver, to enable him to prevent foreclosure on his truck. The loan has since been repaid.

#### **5. Conclusions.**

We have been informed that once the Attorney General's investigation of the trust is concluded, the trustee intends to liquidate the trust and to distribute its assets to Covenant House. Counsel to the trustee has informed us that the assets of the trust have a market value of approximately \$1 million.

As noted above, the principal Covenant House connection with the trust was its annual contribution. Although that may have been a legally proper contribution, it was unusual and does not seem to have had any clear purpose, since Covenant House was the ultimate beneficiary of the trust. Why would (or should) Covenant House make a payment to a trust, especially one that apparently never disbursed any funds or carried out any business, if it was in turn the beneficiary of the trust? Covenant House did make other charitable contributions, but, with one exception,<sup>31</sup> none of the other contributions was of such magnitude.

We believe that the practice of making such contributions to a trust controlled, directly or indirectly, by Father Ritter, even with funds that would have otherwise been paid in respect of his services, was questionable at best. If Father Ritter wished to establish a separate charity with funds that would have been paid to his Order, he could have done so, assuming the Order approved, after the funds were paid to his Order. If Father Ritter wanted to create an endowment for Covenant House, the funds could have been retained by Covenant House for that purpose.

At minimum, contributions to entities controlled by an employee or director should only be made if authorized by vote of the Board excluding any interested member, as required under the new conflicts policy. In addition, full disclosure of any such contribution should be made on all appropriate filings and statements.

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<sup>30</sup> According to Mr. Burns, this was done for the purpose of making the assets in the trust liquid.

<sup>31</sup> For two years, Covenant House contributed approximately \$50,000 annually to AmeriCares, a charity run by one of the Board members, Mr. Macauley. AmeriCares contributed approximately \$50,000 annually to Covenant House. Father Ritter was a Vice President of AmeriCares. Both contributions appear to have been made in connection with annual dinners. The Covenant House contribution was not presented to or approved by the Board.

## **6. Recent Reforms.**

Certain actions taken by the Board since March 7, 1990, should help prevent a recurrence of such activity, including the following:

—The By-laws have been amended to provide that Covenant House may not enter into any transaction where a director or officer will participate or benefit, directly or indirectly, unless the Board of Directors has approved the transaction by a two-thirds majority excluding the vote of the member to be benefited. The By-laws also prohibit loans to directors and officers and require Board approval for any other loan.

—The Board has adopted a policy prohibiting Covenant House and its subsidiaries and affiliates from doing business with any entity owned or controlled by any director or officer or a member of his or her immediate family or in which any such person has a substantial financial interest unless specifically approved by the Board.

—The Board has adopted a policy requiring the approval of the Finance Committee for any expenditure in excess of \$50,000 and requiring the approval of the full Board of Directors for any expenditure in excess of \$100,000.

—The Board has adopted a policy that all charitable contributions of \$5,000 or more by Covenant House be made only with the specific approval of the Board or the Finance Committee.

—Payment of compensation in respect of the services of Sister Mary Rose McGeady, the new President, will be paid directly to her religious community, the Daughters of Charity of St. Vincent de Paul, pursuant to a written agreement between Covenant House and the community.

## **D. Review of Financial Systems and Allegations of Financial Improprieties.**

Covenant House, as noted above, is a parent organization with about a dozen operating subsidiaries, both in this country and abroad. A principal function of the parent organization has been to solicit contributions from private donors, primarily through a direct mail operation. In the fiscal year ending June 30, 1990, for example, approximately 86 percent of Covenant House's revenues were raised through its direct mail operation. The remaining funds were raised from corporate contributions, foundations and governmental sources.

In this section, we will describe the financial systems used by Covenant House to receive, account for and disburse donations and we will set forth the results of Kroll's investigation of allegations of financial improprieties and its review of certain financial systems and procedures. We will conclude this section with specific findings and recommendations.

### **1. Methodology.**

The scope of Kroll's review was to determine, if possible, the validity of allegations of financial improprieties and to conduct a review of selected areas of substantial financial activity determined most vulnerable to abuse, including the areas of petty cash and purchasing. In investigating those allegations and conducting those reviews, Kroll interviewed staff members responsible for these functions and analyzed financial books and records. Furthermore, it performed limited reviews of certain subsidiaries.

## 2. Description of Financial Systems.

*Revenue.* Several times a year, Covenant House solicits direct mail contributions through mailings to persons who have contributed in the past and to potential new contributors. In order to identify potential new contributors, Covenant House periodically acquires and maintains mailing lists. All of the mailings are accomplished by the parent organization through the Direct Marketing Department.

Our review of the revenue collection operation of Covenant House has led us to conclude that it is not only one of the most successful operations of its kind, but it is also professionally and efficiently managed. We have uncovered no evidence of any irregularities or operational deficiencies relating to Covenant House's collection and safeguarding of donor contributions.

In general terms, the system in New York, which receives most of the donations, operates as follows: return envelopes addressed to a designated Covenant House Post Office box are received by the Post Office. The Post Office box is opened daily by representatives of Chemical Bank. The receipts are transported from that Post Office box to a Chemical Bank facility where the envelopes are opened by Chemical Bank representatives. The contributions are then directly deposited in Covenant House accounts at Chemical Bank and at the end of each day Covenant House representatives are given appropriate reconciliation documentation.

*Disbursements.* Approximately 20% of the total funds raised by Covenant House is spent on fund raising efforts. An additional 13% of the total funds is allocated for the costs of administration. The remaining 67% of the total funds raised by Covenant House is used to finance the operations of its programs, primarily operated through its subsidiaries. These funds represent 84% of the aggregate budget of these subsidiaries, which raise the remaining portion of their budgets independently.

*Fund Raising Expenses.* As with many non-profit organizations, Covenant House has almost no endowment or access to significant funds other than those raised from donors. Therefore, it must spend a certain portion of the money raised each year on its fund raising efforts. Our review indicates that the costs that Covenant House incurs in its fund raising efforts historically have been well below the maximum recommended by the Council of Better Business Bureaus, Inc. ("CBBB") and the National Charities Information Bureau. For example, in 1989 Covenant House spent approximately twenty cents per dollar raised, whereas the allowable amount under the CBBB standards is thirty-five cents per dollar.

## 3. Loans to Officers and Other Senior Staff Members.

Under Section 716 of the New York Not-for-Profit Corporation Law, not-for-profit corporations are not permitted to make loans to officers or directors.<sup>32</sup> On at least one occasion, Covenant House made a loan that was not permitted by New York law and on two other occasions Covenant House made loans that, although permitted by New York law, should have been brought to the attention of the Covenant House Board.

*Father Ritter's Loan.* In July 1989 Father Ritter asked Covenant House's Chief Financial Officer for an advance of \$25,000 on the compensation paid in respect of his services. The Chief Financial Officer authorized the advance and Father Ritter was asked to and did sign a standard form of acknowledgement. The advance bore no interest and was to be repaid by January 31,

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<sup>32</sup> By contrast, educational not-for-profit corporations, such as colleges and universities, are expressly permitted to make such loans.

1990. It was fully repaid by the time Father Ritter resigned from Covenant House on February 27, 1990, one month later than it should have been. The advance was apparently a prohibited loan under New York law.

*The Loan to Mr. Kelly.* In July 1989, Covenant House proposed to establish a program in Washington, D.C. James Kelly, who was then acting as Executive Director of the Covenant House program in New Orleans, was asked to move to Washington, D.C., and to become the Executive Director of the new program. Covenant House made a secured, interest-bearing \$60,000 relocation loan to him. The loan was approved by Mr. Harnett and Father Ritter but was not reviewed with or approved by the Covenant House Board of Directors. The loan is current.

*The Loan to Mr. Kells.* In the fall of 1989, John Kells, then Covenant House's Senior Vice President for Communications, was considering leaving Covenant House, in part because of the high cost of housing in the New York area. Father Ritter offered Mr. Kells a housing loan of \$100,000 for the purchase of a cooperative apartment, on the condition that he continue to work for Covenant House for three more years. Mr. Kells resigned from Covenant House on March 5, 1990. Mr. Kells is in the process of selling his co-op and Covenant House has agreed to defer payments (which have been current) for three months provided the co-op is sold and the loan repaid within such time. The loan was not reviewed with or approved by the Covenant House Board of Directors.<sup>33</sup>

If Father Ritter's "salary advance" is considered a "loan" under the terms of the New York statute, as we believe it should be, that loan was impermissible because at the time Father Ritter was an officer of Covenant House. Neither Mr. Kelly nor Mr. Kells was an officer of Covenant House and, therefore, their loans do not violate the New York statute. However, those loans were of such magnitude and significance that they should have been brought to the attention of the Covenant House Board of Directors.<sup>34</sup>

*Recent Reforms.* As noted above, steps have now been taken to see to it that no such loans are made in the future, unless specifically authorized by the Covenant House Board of Directors. The revised By-laws provide that Covenant House shall not make any loan unless authorized by the Board. The By-laws also include a provision prohibiting loans to directors and officers that is equivalent to the New York statute.

#### 4. Conflicts of Interest.

There have been two principal allegations made of "conflicts of interest". We set forth below the facts relating to each allegation, although we note that the term "conflicts of interest" may be somewhat of a misnomer.

*Ellen Lofland.* Father Ritter's niece, Ellen Lofland, is an interior decorator.<sup>35</sup> Beginning in 1982 through 1989, her company, Lofland Properties, was awarded contracts by Covenant

<sup>33</sup> In addition, as of March 7, 1990, three Covenant House employees had outstanding emergency loans of \$5,000, \$1,500 and \$1,000 because of exigent family circumstances. Two other employees received tuition grants as a part of a management development program.

<sup>34</sup> In addition, in 1989, Covenant House offered the new director of Under 21 a relocation loan of \$100,000. The loan was never made but the commitment should have been brought to the attention of the Board of Directors.

<sup>35</sup> In response to the request by Kroll for an interview, Ellen Lofland communicated with Kroll through her counsel.

House to perform interior decorating services for new Covenant House facilities in Ft. Lauderdale, Florida; Houston, Texas; New Orleans, Louisiana; Anchorage, Alaska; and New York City. Pursuant to those contracts, and as is customary for interior decorators, she purchased furniture and other interior decorations for the Covenant House facilities in question. She purchased materials wholesale from the manufacturers, charged them to Covenant House at her direct cost, and charged Covenant House a fee plus out-of-pocket expenses.

There is no evidence that Ms. Lofland was paid for services that she did not perform, that the fees paid to her of approximately \$170,000 over an eight year period were excessive or that her work was not satisfactory. It does appear, however, that the contracts were awarded to Ms. Lofland without competitive bidding and primarily because she was Father Ritter's niece. Although such transactions are not prohibited by law, the nature of the relationship between Ms. Lofland and Father Ritter was such that, in our opinion, the matter should have been brought to the Board for approval at a meeting during which Father Ritter recused himself and a competitive bidding process should have been used. Neither was done.<sup>36</sup>

Ms. Lofland's husband's company, Intergroup Development, Inc., in which he held a minority equity interest, was also retained by Covenant House to manage the construction work in Houston and Fort Lauderdale. He also consulted on the New Orleans renovations. The cost of construction was approximately \$4 million, which included payments for materials, other costs and the company's fee of approximately 5%. There is no evidence that he received excessive payment or that his work was not satisfactory. However, the minutes of Covenant House do not reflect approval of his work, nor was his work subject to competitive bidding.

*Other Matters.* For a time, a former Covenant House senior staff member shared an apartment with a person who was his subordinate and whose invoices he approved. The senior staff member received a \$10,000 loan from a vendor and, with the approval of his superior, also received from that vendor compensation for work done during his vacation. While not unlawful, we believe that such activities were inappropriate because they created a potential conflict of interest.<sup>37</sup>

*Recent Reforms: New Conflicts of Interest, Competitive Bidding and Employment of Relatives Policies.* On April 25 and May 18, 1990, the Covenant House Board of Directors adopted new written guidelines setting forth policies and procedures relating to conflicts of interest, competitive bidding and employment of relatives. The conflicts of interest policy provides in part as follows:

“Unless specifically authorized by the Board of Directors, Covenant House and its subsidiaries and affiliates will not do business with any firm or entity owned or controlled by any member of the Board of Directors or any officer or any member of his or her immediate family or with any firm or entity in which any officer or director or any such immediate family member has a substantial financial interest.”

<sup>36</sup> We have been told that on one occasion, a proposed “conflicts of interest” section of the Covenant House purchasing manual was deleted because “it would be an insult to Father Ritter”.

<sup>37</sup> In addition, one former director worked for a company that performed minor services for Covenant House, mostly on a pro bono basis. The company was paid a small amount for its services in one instance. Under the policy now in effect, such a transaction would have to be approved by the other directors.

At Covenant House Texas, the brother of a former maintenance supervisor performed approximately \$100,000 of construction and related work.

This policy goes further than applicable New York law in that it applies to the immediate family members of directors and officers as well as to directors and officers themselves. This policy provides for disclosure by each director and officer of any such interest in any firm or business with which Covenant House is considering doing business. In addition, the By-laws require approval of any transaction in which a director has an interest by a two-thirds vote excluding the interested director. Other procedures have been implemented to bring possible conflicts to the attention of the Board. As noted earlier,<sup>38</sup> all transactions involving expenditures of \$50,000 or more must be approved by the Finance Committee and all transactions involving expenditures of \$100,000 or more must be approved by the Board. A conflicts policy applicable to all staff is also being promulgated.

The competitive bidding policy provides that Covenant House will seek competitive, closed (sealed) bids for all contracts and purchases in excess of \$50,000. If it is impossible to obtain three competitive bids for any such contract, the transaction must be approved by the Board of Directors. In addition, Covenant House for some time has had a policy requiring that bids be obtained for certain purchases. This policy currently requires that a minimum of three bids be obtained for any purchase in excess of \$500 (and such bids must be in writing if the purchase is in excess of \$1,500).

The "employment of relatives" policy provides that Covenant House will not hire relatives of staff members or persons who share a common household to work in the same department or to work under the supervision of a relative without the approval of the Covenant House Personnel Director or the Vice President of Human Resources.

We find that those policies, if properly enforced, should help to prevent conflicts of interest from arising in the future.

##### **5. Dove Services, Inc.**

Dove Services, Inc. (also known as Dove Messenger Services) ("Dove") was established in 1982 as a for-profit subsidiary of Covenant House. Dove provided messenger services to approximately 100 private accounts as well as to various Covenant House facilities. Dove was created to provide gainful employment to Covenant House residents in a structured environment. During 1989, approximately 100 residents worked for Dove, with 15 to 20 residents working at any given time, either as messengers or in the office. Dove's revenues during fiscal 1989 were less than \$40,000.

Prior to August 1989, Dove was located at the 41st Street facility and operated under the auspices of Under 21. It was then moved to the 17th Street facility, and supervision of its operations was divided between Under 21 and Rights of Passage.

In April 1990, a former Covenant House employee made allegations that the manager of Dove was stealing money belonging to residents. This prompted a complete review of Dove's financial procedures and records. The manager cooperated fully.

Although Kroll found no evidence to substantiate the allegations of theft, it found that the financial controls and procedures at Dove were inadequate and created a serious potential for fraud. In fact, the review revealed errors and unsupported transactions so numerous that the records were not auditable. In particular, the controls for petty cash and payroll were extremely weak. Billing records were disorganized and there was a several month backlog in sending out bills. Kroll attributes these problems to poor internal management of the company as well as

<sup>38</sup> See page 24, *supra*.

the division of oversight responsibilities. The manager of Dove admitted that he did not know how to handle bookkeeping matters properly.

In May 1990, because of these findings, Covenant House decided to close the operations of Dove. The senior management is currently collecting unpaid accounts and winding up operations.

#### **6. Under 21 Security Department.**

On April 6, 1990, an employee of Under 21's Finance Department discovered that a payroll check for \$208 had been altered so that the amount was increased to \$3,248 and then cashed. The check was payable to an alleged New York City police officer working during his off-duty time as a security guard at Under 21. Covenant House promptly notified the Cravath firm which notified Kroll Associates. This information was also promptly provided to the Manhattan District Attorney and the New York City Police Department.

Further investigation revealed evidence of other irregularities in the payroll system for the Under 21 Security Department. Eleven persons, many claiming to be off-duty police officers, were hired as "street counselors" or part-time security guards. They were listed and paid as independent contractors rather than employees. They reported to the Under 21 Security Director. With respect to most of these persons, the names, addresses or social security numbers on the payroll were incorrect or fictitious. In addition, paychecks were issued based on hours submitted by the "street counselors" without verification. The Security Director claimed that he had no control over the counselors and that he could not vouch for their identities or working hours.

The Manhattan District Attorney and the New York City Police Department are continuing to investigate the altered check matter and the identities of the "street counselors". The check was negotiated at a local restaurant, then endorsed by a restaurant vendor prior to clearing Under 21's account at Chemical Bank. It is not clear where in this chain it was altered.

We believe the hiring and payroll procedures for the street counselors were inadequate as was their supervision. The Security Director was also not adequately supervised. Under 21 has since eliminated the practice of hiring independent contractors as security guards. The Security Director no longer works for Covenant House. Present management has undertaken a thorough review of the status and needs of the Security Department by an outside consultant who has made certain recommendations that are being implemented.

#### **7. Petty Cash.**

Covenant House and its related entities have a number of petty cash funds. For example, Under 21 itself has 25 different petty cash funds. It is estimated that in fiscal year 1990, Under 21 will disburse approximately \$300,000 through its petty cash funds.

The petty cash funds are run on an "imprest" system from which funds are advanced before the expenses for which they are disbursed are actually incurred. Each department maintains a list of those with signing authority. When funds are removed from petty cash funds, "chits" are signed by the withdrawing employee and receipts for the incurred expenses are then turned in.

Our investigation has revealed that controls over petty cash funds must be strengthened. The procedures at Covenant House, the parent, were generally adequate and proper, although not always followed in practice. The procedures of the subsidiaries whose records were

examined, especially Under 21, were not formalized and were poorly documented. Moreover, we believe that there were too many funds and they were not audited on a regular basis.<sup>39</sup>

In addition, petty cash funds were used on occasion for inappropriate expenditures. Kevin Kite, one of the former residents who made public allegations of sexual misconduct against Father Ritter, was originally supported by an allowance that he received from the petty cash fund in the Office of the President. The Chief Financial Officer stated that it was "extremely unusual" for a Covenant House resident to receive an allowance from the Office of the President. Moreover, although the President's petty cash fund had a \$50 limit for any single withdrawal, Mr. Kite received \$200 from that fund every two weeks. In fact, because that withdrawal put a strain on the petty cash fund, Mr. Kite was later paid a reduced allowance pursuant to the check requisition system.<sup>40</sup>

### 8. Recommendations and Recent Reforms.

Based on our investigation into the allegations of financial improprieties and our review of financial procedures, we recommend that Covenant House and its subsidiaries take the following actions, many of which have already been implemented:

(a) There should be well-defined standards prohibiting transactions involving conflicts of interest. The standards should be promulgated to all staff.<sup>41</sup> Such a policy has been adopted. *See* pages 24 and 28.

(b) Competitive bidding should be required for all purchases in excess of a specified dollar amount. Covenant House's policies in this area have been strengthened. *See* page 28.

(c) There should be well-defined standards as to what level of authorization is required for a particular level of expenditure. Such a policy has been adopted. *See* page 24.

(d) All material contracts for construction and other major vendor contracts should provide that Covenant House has a right to audit the relevant books and records of the contractor or vendor to establish compliance with the terms of the contract.

(e) The number of petty cash funds and their balances should be kept to a minimum. All funds should be checked frequently and any differences investigated immediately and the proper documentation must be required before any funds are disbursed.

(f) Covenant House should establish a central internal auditing department with appropriate staffing. The head of this department should report directly to the President or the Chief Operating Officer and should have indirect reporting responsibility to the Audit Committee of the Board of Directors. The function of this department should be to insure compliance with all applicable policies and procedures and to investigate allegations of violations of such policies. All staff should be informed of the existence of this department and directed to cooperate fully with it. Covenant House has begun to establish such a department. On July 17, 1990, an audit director was hired who will report directly to the President and have

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<sup>39</sup> Our investigation revealed that a total of \$1,150 was taken from the petty cash funds without sufficient documentation.

<sup>40</sup> Additional payments for Mr. Kite's education were also made.

<sup>41</sup> We note that many corporations require personnel to sign a statement acknowledging that they have read, understand and will comply with a written conflicts of interest policy of the company.



indirect reporting responsibility to the Audit Committee. Staff members have been informed of the creation of this department.

(g) The Board of Directors should assume a stronger role in the oversight of the agency's financial, operational and other programs. We believe that the Board has begun to do so. We note in this regard that a new Audit Committee and a reinvigorated Finance Committee have been formed.

(h) Covenant House should exercise more control over the budgets and financial systems of its subsidiaries if it continues to provide a substantial part of their revenues. We note, however, that this issue must be addressed in the context of the overall review of parent-subsidiary relations currently underway (see page 14).

We have also made additional recommendations to senior management of Covenant House to strengthen routine financial systems and procedures. Many of these recommendations have already been implemented.

## **E. Other Miscellaneous Allegations.**

### **1. Sean Russell.**

We investigated published allegations that Covenant House covered-up, or refused to cooperate in the investigation of, the murder of Sean Russell on October 19, 1989. The implication of the allegations was that Russell, a former resident, was having an affair with a Covenant House staff member.

Mr. Russell was assaulted and killed outside a friend's apartment by a man identified as Donald Holden, who was armed with a knife. Mr. Holden then killed himself. There is no evidence of any relationship between Mr. Holden and Covenant House.

We found no evidence that Covenant House or anyone on its staff covered-up, or refused to cooperate in the investigation of, Mr. Russell's murder. On the contrary, we found that Covenant House cooperated fully with the New York City Police Department. When these allegations surfaced in February 1990, Covenant House officials promptly contacted the Police Department and were assured by the First Deputy Police Commissioner that there was no evidence that Covenant House was involved in any way. We also found no evidence that Covenant House or anyone on its staff was involved in any way in the murder. The New York City Police Department has concluded its investigation and has confirmed to us that Covenant House was not involved and cooperated fully.

We also found no evidence to support the allegation of a sexual relationship between Russell and any staff member.

### **2. Identification Papers.**

The Director of the Covenant House Institute of Youth Advocacy, who has since resigned, asked a former staff member then serving as a pastor in an upstate New York church, to procure identification papers. As has been previously publicly reported, the priest procured a birth certificate and a matching baptismal certificate in the name of a young boy who had died. The certificates were later given to Kevin Kite to establish a new identity for him, ostensibly as a part of the Safe House Program, described above.<sup>42</sup>

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<sup>42</sup> The Safe House Program was terminated on March 7, 1990. See page 14, *supra*.

We also found in a file titled "Safe House Program" in the Office of the President, a second birth certificate in the name of another boy who, we learned, died two days after birth. The birth certificate was in an envelope bearing a 1983 postmark. We have ascertained that it was obtained at Father Ritter's request and we assume that it was also procured for use in the Safe House Program. We found no evidence of any other instances of procuring or altering identification papers. Such activities are inappropriate and should not be repeated.

### **3. Unauthorized Subsidiary Expenditures.**

In the course of an audit, Covenant House management found that the former director of one of its subsidiaries made charitable contributions totaling approximately \$9,000 to an organization in his home state with his personal funds, and then obtained reimbursement from Covenant House for these contributions. In addition, he used Covenant House funds to purchase a private home for approximately \$29,000 in which two former residents of the program now live. Senior management states that there was no authorization for any of these actions. The former director has agreed to reimburse Covenant House for the cost of the home and discussions are under way with respect to the contributions.

### **4. Miscellaneous Rumors.**

We investigated a rumor that a college administrator was involved with Father Ritter and other Covenant House executives in a prostitution ring involving Covenant House residents. We learned that on one occasion, the administrator visited Covenant House. We also learned that four Covenant House residents had attended the college in question and that Covenant House supervised their college program as a part of the Under 21 Education/Vocation Department. We concluded that the visit by the administrator to Covenant House was related to the college program and we were unable to find any evidence of a prostitution ring involving that person or anyone at Covenant House.

We also investigated a rumor that Covenant House was involved in political activity in support of the Contras. We were unable to find any evidence to support the rumor.

### **F. The Board of Directors.**

Because certain public criticism was directed at the actions, or inaction, of the Board of Directors, we investigated the Board's role in the affairs of Covenant House. We have concluded that during Father Ritter's tenure as President, the Board should have exercised greater oversight over the finances and affairs of Covenant House. There was an excessive willingness to defer to Father Ritter. Tighter financial controls should have been exercised; there should have been an Audit Committee that met regularly and received periodic reports from the management and the independent accountants. An internal audit department should have been established. The Board should have insured that clear, firm policies regarding conflicts of interest and loans to employees, among other things, were in place and observed. There should have been a mechanism for collecting and reporting allegations of misconduct. The Board should have played a more active role in monitoring executive compensation, particularly with respect to compensation for Father Ritter.

Last fall's crisis obviously took the Board by surprise, coming as it did less than two weeks after a new Chairman assumed office. Few volunteer boards of not-for-profit corporations are equipped to handle affairs of such magnitude, especially when they lead to a vacuum of leadership. Father Ritter's resignation on February 27, 1990, brought about the restructuring of the corporation, and prompted the Board to assert its control and exercise its responsibility.

Since February 27, the newly reconstituted Board has met eleven times and has been diligent in the exercise of its duties. Evidence of the Board's commitment to set the affairs of Covenant House in order is the very existence of this Report. Individual members of the Board have spent countless hours and boundless energy on the affairs of Covenant House. The Board has added eight new members, appointed a new president, engaged new lawyers and accountants and adopted new policies and procedures, all to enable Covenant House to begin a new chapter in carrying out its very important mission.



**PART III.****SUMMARY OF THE REPORT OF ERNST & YOUNG  
ON THE SYSTEM OF INTERNAL ACCOUNTING CONTROL****A. Introduction.**

Ernst & Young, an independent public accounting firm, performed a review of significant internal accounting control procedures at Covenant House and certain of its New York subsidiaries. The following summary of the Ernst & Young report to the Board of Directors has been reviewed and approved by Ernst & Young.

**B. The Methodology of the Review.**

Ernst & Young performed certain agreed upon procedures to review the significant portions of the system of internal accounting control of Covenant House and three of its subsidiaries, Under 21 (excluding its subsidiary, Dove Services, Inc.), Testamentum and 268 West 44th Corp., that was in effect as of March 31, 1990. (All references to Covenant House mean the parent organization only.) Ernst & Young reviewed the internal control environment and the design of the internal accounting control system related specifically to the cash disbursements, payroll, cash receipts, petty cash and bank transfer systems at each entity to the extent existent. The procedures performed by Ernst & Young included obtaining an understanding of policies and procedures existing during March 1990, identifying controls and deficiencies, tests of a sample of (or, in some cases, all) transactions within a given system during the month of March 1990 to determine compliance with policies and procedures, discussions with management and staff and a review of the minutes and other records. Those procedures, which were performed during April through June of 1990, involved approximately 1000 hours of Ernst & Young staff time as well as approximately 275 hours of Ernst & Young management time.

**C. Findings With Respect to Covenant House.**

*Internal Control Environment.* In general, Ernst & Young noted that "Covenant House has experienced dramatic change in the first quarter of 1990 . . ." that can create "stress to the internal control structure of an organization". However, it found that "[f]or the period covered by our procedures, it appeared that the management of Covenant House had an adequate level of control consciousness and had instituted and planned further improvements in the system of internal accounting control".

Specifically, with respect to the internal control environment, Ernst & Young found the following:

*"Accounting and Reporting Systems.* Financial accounting and reporting systems at Covenant House are designed to provide management with sufficient, accurate, timely information to manage the organization.

*"EDP Controls.* Covenant House appears to have adequate access controls and controls over program changes. Covenant House also has EDP security officers who monitor information system processing activities. Application programs and data files are appropriately secured.

*"Budgetary Controls.* Covenant House employs a budgetary process as a method for planning its programs and other activities, measuring its performance and controlling costs. There is appropriate involvement in the process by those who will be responsible for achieving the budgeted results and there are timely and periodic comparisons of actual results against budgeted results, with appropriate investigations of significant variances and trends.

*"Supervision and Review.* Covenant House has policies and procedures for reviewing and supervising the work of finance department personnel and for documenting such review, although these policies and procedures themselves are not always documented in writing. Policies and procedures should be in writing to be effective. Overall compliance with these policies and procedures appeared to be adequate except for certain instances which are detailed [in the report as summarized below] . . ."

In addition, Ernst & Young noted that Covenant House and its subsidiaries "operate on a decentralized basis in the accounting and financial areas" and recommended that an internal audit group be established that "should operate free of other operating responsibilities and report directly to top management and the Board of Directors (or a committee thereof)".<sup>43</sup> Ernst & Young also found that "communications between the Board of Directors and the independent auditors have been limited". Specifically, the results of the last annual audit were "analytically discussed with" the Board of Directors by management instead of the independent auditors and the management letter was not presented to the Board. It also noted that there was no formal conflict of interest policy in effect during March of 1990, although one was issued in April.

*Design of Internal Accounting Control System.* Ernst & Young found the following deficiencies in the design of the system of internal accounting control:

"The employee responsible for the preparation of manual payroll checks also has access to the check-signing machine. These duties should be segregated.

"There were five separate petty cash boxes with an overall imprest balance of approximately \$11,000. We have been informed that the number of petty cash boxes and the overall imprest balance has been significantly reduced subsequent to March 1990."

*Cash Disbursements.* After reviewing a statistical random sample of 66 checks from all checks written on the operating account during the month of March 1990, Ernst & Young found the following:

"There were five items which were purchased by use of only a properly authorized check request. These items would normally be purchased via a purchase order (which requires competitive bidding). Further, under a strict interpretation of the policy in effect on March 19, 1990, three additional items were authorized by check request instead of by purchase order. The remaining 58 items were authorized appropriately by check request or purchase order.

"In one instance, an accounting clerk's initials indicating that the mathematical accuracy of the check request was verified was not evident (although the check request was mathematically correct) . . . . The remaining 65 check requests were initialed by the

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<sup>43</sup> A similar recommendation was made by Kroll Associates and has been implemented by the Board of Directors (see page 30, *supra*).

accounting clerk indicating the verification of the mathematical accuracy and consistency of the disbursement package.

“Covenant House paid school expenses, tuition and a weekly allowance of \$65 to a former Covenant House resident who was too old under the criteria of Covenant House to participate in any formal Covenant House program. We have been informed that support of this individual was discontinued in April 1990. These expenditures were not supported by invoices or other independent evidence. The remaining 65 check requests were supported by invoices or other independent evidence of goods received or services provided.”

Ernst & Young also found that, with respect to all 66 items, the purchase orders or check requests were properly approved, the account coding for the classification of expenses had been reviewed and approved and all checks had been signed by authorized signatories in accordance with policy.

Ernst & Young also found that the bank reconciliation agreed to the accounting records and related bank statements, although the bank reconciliation was not performed until late May 1990. It also found that the “budget to actual analyses” performed at different levels in the organization “were performed conscientiously and we noted instances where these analyses were effective in detecting errors in the accounting records.”

*Payroll.* After reviewing a statistical random sample of 69 payroll checks from all payroll checks issued during March 1990, Ernst & Young found that with respect to each check, procedures requiring signing and verification of the time sheet were properly performed, the check was properly signed, the time sheet hours corresponded to the payroll register hours and the pay rate in the payroll journal corresponded to the pay rate specified in the employee’s file. It further found that “all payroll costs were properly summarized, classified and posted to the general ledger” and that the payroll bank reconciliation agreed to the accounting records, although it was not completed until late May 1990.

*Cash Receipts.* Ernst & Young reviewed 100% of the cash receipts received and entered in the cash receipts journal in March 1990 to determine whether receipts were properly recorded in the accounting records. It found that all the procedures reviewed were “performed without exception” but noted that the journal entry for cash receipts was not reviewed by anyone in a supervisory position.

*Petty Cash.* With respect to petty cash funds used for the Faith Community,<sup>44</sup> Ernst & Young found that endorsed checks in the amount of \$440 were inappropriately cashed through the petty cash fund. In addition, these checks remained undeposited by Covenant House indicating a lack of review of the documentation by appropriate personnel in the finance department. Petty cash vouchers were also used only when advances were made; other disbursements were supported only by receipts (resulting in no evidence of approval and no evidence of who received the cash) or, in the case of the \$12 weekly stipends, by a calculation of the total amount paid. Ernst & Young also found that limited disbursements from the petty cash funds in the finance department, the Office of the President and the Faith Community, although authorized, exceeded the petty cash \$50 limit.

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<sup>44</sup> The Faith Community consists of approximately 100 persons who work for Covenant House for room, board, insurance and a \$12 per week stipend. See page 13 *supra*.

*Bank Transfers.* Ernst & Young reviewed 100% of the bank transfers made during March 1990 and found that all transfers were properly approved and corresponded to bank statements; however, six bank transfers were not recorded in the accounting records during March 1990 but rather during May 1990.

#### D. Findings With Respect to Under 21.

*Internal Control Environment.* Ernst & Young found that, notwithstanding the changes experienced by Under 21 in recent months, "it appeared that the management of Under 21 had an adequate level of control consciousness and had instituted and planned further improvements in the system of internal accounting control." Specifically, Ernst & Young found the following with respect to the general control mechanisms:

*"Accounting and Reporting Systems.*

. . . Certain instances were noted where the internal accounting controls over the accounting system were either lacking or compliance with stated controls was not adhered to. In addition, specific accounting policies and procedures were frequently not documented or documented on a piecemeal basis by individual memos. . . .

*"Budgetary Controls.*

. . . There is appropriate involvement in the process by those who will be responsible for achieving the budgeted results. However, . . . certain budget to actual analyses were not performed in March 1990 and comparisons of actual results against budgeted results did not always include meaningful analyses due to the reformatting of reports.

*"Management Supervision and Communications.*

The operations of the finance department are segmented and the various segments, particularly payroll and petty cash, operate without an adequate level of guidance, supervision and review by management. In addition:

- individual position tasks and responsibilities are not clearly defined and, as these responsibilities are currently assigned, there are instances of inadequate segregation of duties;
- policies and procedures do not appear to be clearly or regularly communicated by the finance department to personnel in other areas of the organization.

*"Override of System Controls.*

The system of internal accounting control over payroll expenditures was circumvented by payments to security guards, which were processed through the cash disbursements system and payroll payments to employees of an affiliate, Dove Services, Inc., which were processed through petty cash. The cash disbursements and petty cash systems of internal accounting control were not designed to detect or prevent errors in the processing of payroll transactions or to determine whether individuals providing services are to be treated as employees or independent contractors.<sup>45</sup>

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<sup>45</sup> See page 29 *supra*.

"Under 21 utilizes the central purchasing department of its parent, Covenant House, and is subject to the policies outlined in the related purchasing manual. The process is sometimes circumvented and, as a result, purchases are processed through the use of check requests which do not require competitive bidding . . ."

*Design of System of Internal Accounting Control.* Ernst & Young found that the controls to ensure that the payroll checks and registers prepared by the outside payroll service conformed to the original payroll data were inadequate. It also found the following deficiencies:

"Physical access to checks is not well controlled. . . .

"There are 25 separate petty cash boxes. . . . Average turnover of the petty cash funds during the nine months ended March 31, 1990 was approximately \$7-9,000 per week. There is no formal written policy regarding the controls over the handling of petty cash. However, an informal \$50 limit on individual petty cash expenditures exists generally in practice.

"The employee who handles the accounting function for petty cash performs a number of duties which conflict from an internal control perspective.

"There is no control log maintained for capital equipment, such as personal computers, indicating their location and the individual using the equipment."

*Cash Disbursements.* After reviewing a statistical random sample of 68 checks from all checks written on the operating account during March 1990, Ernst & Young found that 61 "were authorized appropriately by check request or purchase order". The remaining seven were authorized by check request when a purchase order should have been used. The purchase orders or check requests were properly approved in 67 of the 68 items; one was missing the required two approvals. Sixty-two of the 68 items were supported by invoices or other independent documentation; four of the other six items pertained to payments to security guards.

In addition, Ernst & Young found that, in 35 instances, there was no written evidence that the coding sheets for invoices were reviewed and approved by the Chief Accountant; Ernst & Young was told that this occurred because the Chief Accountant had returned them to the preparers for correction after finding errors during her review and then had reviewed and approved an edit run of the transactions rather than the original coding sheets. It also found that all 68 checks were properly signed.

Ernst & Young also found that the bank reconciliation agreed to the accounting records and was mathematically correct but was not performed until late May 1990.

Ernst & Young also found that documentation for disbursements from petty cash was incomplete and there were many instances of expenditures in excess of the \$50 limit and, in some cases, those expenditures lacked receipts. Several petty cash reconciliations were lacking documentation. In addition, reconciliations were sometimes performed by an individual who also performed duties that conflict from an internal control perspective. It also found that "in all cases, the reconciliations were mathematically correct".

*Payroll.* Ernst & Young reviewed a statistical random sample of 70 payroll checks issued during March 1990 and found that the time sheets for all payroll checks had been properly signed and, with one exception, approved, and in all cases the total hours agreed to the hours paid to the employees. It also reviewed the personnel status notices ("PSN") on file for each employee and found that 51 had been properly approved, 18 were missing one or more approvals and one



could not be located. It also found that the PSNs agreed to the pay rate in the payroll register in 68 of 70 cases; in one case, a salary increase was effective two weeks prior to the date the PSN was received by the Finance Department and in another case the pay rate could not be verified because the PSN was missing. Ernst & Young also found that employee benefits hours were properly calculated in 66 of 70 cases and that in the remaining four the errors were incorrectly calculated by the outside payroll service.

Ernst & Young reviewed the payroll bank reconciliation for March 1990 and found that it agreed with the accounting records but was not prepared until June 1990 and included reconciling items (unclaimed payroll checks) dating back to 1983.

*Cash Receipts.* Ernst & Young noted that the volume and dollar amount of cash receipts is not significant at Under 21. However, it found that contributions received were properly recorded although it recommended maintenance of a control log for cash receipts forwarded to Covenant House. It also found that grant receipts were properly recorded in the accounting records.

#### **E. Findings With Respect to Testamentum and 268 West 44th Corp.**

*Internal Control Environment.* In view of the fact that Testamentum and 268 West 44th Corp. have no employees and financial accounting and administrative services are performed by Covenant House, Ernst & Young found that "the internal control environment is materially the same as that of [Covenant House]." It noted, however, that accounting records for the two entities do not appear to be regularly reviewed by management and that, although their budgets are approved by the Board of Directors as a single amount, periodic analyses of budgeted to actual results are not performed.<sup>46</sup>

*Design of System of Internal Control.* Ernst & Young noted that two employees of Covenant House occupy apartments in a building owned by 268 West 44th Corp. at below market rents. It also noted that there was no mechanism for monitoring all the occupancies of apartments in those buildings.

*Cash Disbursements.* Ernst & Young tested 100% of the cash disbursements made by both entities during March 1990 (totaling 30 checks). It found that all but one check request had the required approvals, all disbursements were supported by invoices or other documentation, all checks were properly authorized and the account coding of the expenses had been performed properly. Ernst & Young also found that the bank reconciliations agreed to the accounting records and had been prepared on a timely basis.

*Cash Receipts.* Cash receipts consisting primarily of rent payments were found to agree to the bank statements. Ernst & Young noted that rent payments of approximately \$25,000 of certain occupants had not been deposited for several years. Ernst & Young was informed that the rent payments had not been deposited on the advice of legal counsel in light of a dispute as to the rights of the occupants. These receipts are not maintained under any form of accounting control. Ernst & Young found that cash receipts were properly classified and posted to the accounting records.

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<sup>46</sup> The combined expenditures of Testamentum and 268 West 44th Corp. for the fiscal year ending June 30, 1990, were less than \$500,000. Approximately 75% of this amount constituted payments for utilities, insurance, depreciation, taxes and audit costs.

**F. Conclusion.**

The rules of the accounting profession for special reports on agreed-upon procedures provide that the accountant's report must disclaim an opinion with respect to the specified items examined and must state that the report does not extend to the entity's system of internal accounting control taken as a whole.<sup>47</sup> In accordance with those rules, each of the three reports by Ernst & Young concludes as follows:

"Because the above procedures do not constitute a study and evaluation of the internal control structure made in accordance with standards established by the American Institute of Certified Public Accountants, we do not express an opinion on whether the internal control system, taken as a whole, meets the objectives of internal accounting control insofar as those objectives pertain to the prevention and detection of errors or irregularities in amounts that would be material in relation to the financial statements [of the entity being reported on]. In connection with the procedures referred to above, no matters came to our attention that have not been included in our findings. Had we performed additional procedures or had we made a study and evaluation of the internal controls structure in accordance with standards established by the American Institute of Certified Public Accountants, additional matters might have come to our attention that would have been reported to you. Furthermore, we have not audited any financial statements of [such entity] on March 31, 1990 or for any other period."



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<sup>47</sup> See Statement on Auditing Standards No. 35, "Special Reports—Applying Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement" and "Statement on Auditing Standards No. 30, Reporting on Internal Accounting Control."

**PART IV.****REPORT ON COMPENSATION****A. Compensation, Severance and Benefits Policies**

Covenant House's policies and practices relating to compensation of its officers and employees have been developed in consultation with, and periodically reviewed by, outside experts.

In 1984, Covenant House retained the Hay Group, Inc., a consulting firm specializing in compensation for non-profit as well as for-profit organizations, to develop a salary structure for all employees at Covenant House and all of its subsidiaries. The Hay Group and Covenant House personnel department staff developed job descriptions for all positions, assigned each position points for purposes of salary determination and then compared the positions and salaries to other organizations to develop appropriate salary levels. The salaries implemented as a result of this review were generally below the mid-point of the salary ranges for comparable positions at other organizations.

The Hay Group has also reviewed the salaries of all personnel on a regular basis. These reviews focus on changes in the organization structure that may affect individual positions, the effects of turnover and the introduction of new employees and changes in the external marketplace that affect the relative competitive posture of the organization. The Hay Group has performed reviews in 1986 and 1988 and has generally found that Covenant House salaries lag behind comparable organizations. For example, in its 1988 study, the Hay Group found that the salaries of the 17 top executives were all below the maximum established for their positions, and 12 were below the mid-point established. The salaries of all 15 professionals in the finance and data processing departments were below the maximum, with 13 below the mid-point and 9 below the minimum levels established. The salaries of all 59 other corporate professionals were below the maximum, with 47 below the mid-point and 26 below the minimum levels. With respect to 120 other employees, including secretaries, security guards, receptionists and housekeepers, only two salaries exceeded the maximum for the positions while 95 were below the mid-point and 56 were below the minimum levels. (Salaries that are found to equal or exceed the maximum on any review are frozen (as were the two mentioned above).)

Covenant House also participates in surveys of salaries at non-profit organizations conducted annually by the Society for Non-Profit Organizations and KPMG Peat Marwick and periodically by others. These surveys indicate that Covenant House salaries are equivalent to or below those of other comparable organizations.

Nevertheless, in light of allegations in the press and elsewhere that Father Ritter's compensation<sup>48</sup> and that of other senior staff members at Covenant House might be excessive, in March 1990, Covenant House asked Richard Shinn, former President of Metropolitan Life Insurance Company and currently Executive Vice Chairman of the New York Stock Exchange, to review Covenant House's salary compensation arrangements and implementation, severance allowance policy and employee benefit plans.

Mr. Shinn reviewed the salaries at Covenant House in relation to positions and descriptions of responsibilities and in relation to the salaries at comparable organizations. He did not, and was not asked to, review whether any particular individual was qualified for his or her position nor was he asked to review the practices associated with compensating members of religious orders who hold certain positions.

In a letter dated April 10, 1990, Mr. Shinn reported to Covenant House's Board of Directors with respect to salary compensation as follows:

"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 [one individual]<sup>49</sup> 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."

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<sup>48</sup> Compensation paid in respect of Father Ritter's services was as follows for the fiscal years noted:

prior to 1981	unavailable
1981	\$43,000 (approx.)
1982	46,906
1983	59,843
1984	64,810
1985	98,251
1986	38,146
1987	40,653
1988	42,587
1989	43,289
1990	29,041

As noted earlier (see page 21), at Father Ritter's direction, in each of the fiscal years ending June 30, 1986, 1987, 1988, 1989 and 1990, Covenant House also made payments of \$60,000 per year to the Franciscan Charitable Trust. The payment to the trust for fiscal 1986 was made in connection with a "retroactive" reduction of his 1986 compensation to \$38,000. (See page 21 *supra*.)

<sup>49</sup> This employee has since resigned.

Prior to April 25, 1990, Covenant House had no formal severance policy. Mr. Shinn advised Covenant House that, based on his research on the severance plans of both business and non-profit organizations, a typical plan provides one week's severance pay for each year of service to a maximum of either 13 or 26 weeks. He also stated that such payment may be made either on a lump-sum basis or over a period of time and that, if the latter is elected, benefits would continue during that period.

On April 25, 1990, the Board of Directors adopted a policy of granting severance pay to laid-off employees at the rate of one week's salary for each completed year of service, to be paid as a continuation of salary and with benefits continuing to be paid during that time.

With respect to Covenant House's employee benefit plans, Mr. Shinn concluded that "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".

#### **B. Payments in Respect of Father Ritter's Services.**

Many people, including many donors to Covenant House, have been surprised to learn that substantial payments were made by Covenant House in respect of Father Ritter's services. Because of his vow of poverty as a Franciscan and his apparent asceticism, many people assumed that Father Ritter received only a nominal salary.

As noted earlier, consistent with the practice for compensating members of religious orders, Covenant House paid no salary directly to Father Ritter but did make payments to a bank account in the name of his Franciscan Order in respect of his services. In addition, beginning in 1986, at Father Ritter's direction, a portion (\$60,000) of this annual payment was paid to the Franciscan Charitable Trust instead of being paid to his Order. The payments to the Order and to the trust combined totaled approximately \$100,000 annually during fiscal years 1986 to 1990.<sup>50</sup>

The payments in respect of Father Ritter's services raise several issues, in addition to the propriety of the diversion of funds to the trust which has already been discussed.<sup>51</sup> First, if it is reasonable (as the Hay Group, Mr. Shinn and others have concluded) to establish the salary of the President at around \$100,000, should the same amount be paid when the President is a member of a religious order who has taken a vow of poverty? Second, if payments to a priest, nun or brother are to be made to his or her order, how should such payments be structured to insure accountability of the individual to the organization?

We find that Covenant House's practice of establishing a salary for each position, including that of President, based on the responsibilities of that position regardless of who holds it, is not unreasonable. We understand that many other institutions that employ members of religious orders who have taken vows of poverty also pay fair market value compensation in respect of the services of those persons. The issue then becomes to whom and how such payments are made.

Covenant House's By-laws provide that the President must be a Catholic priest, nun or brother. Other religious are likely to hold other positions. Thus, Covenant House is likely to

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<sup>50</sup> See pages 21-22, *supra*..

<sup>51</sup> See page 23.

continue to pay compensation to religious orders in respect of the services of their members. We believe Covenant House should do so in each instance only pursuant to a clear, written understanding with the respective order as to how much will be paid and to whom. This was not done in the case of Father Ritter. It has, however, been done with the new President. Covenant House has entered into an agreement with the new President's community, the Daughters of Charity of St. Vincent de Paul, which provides that all payments will be made directly to her community. We believe that in each such case, there should be no alteration in method of payment except pursuant to an agreement with the applicable order. It is then the responsibility of the order to determine how the individual is compensated and how such funds are otherwise allocated to support the ministry of the order.



**PART V****SUMMARY OF THE REPORT OF  
THE CHILD WELFARE LEAGUE ON  
COVENANT HOUSE PROGRAMS****A. Introduction.**

The Child Welfare League of America is a federation of nearly six hundred public and voluntary child welfare agencies throughout the United States and Canada. It was established in 1920 on recommendations of the first White House Conference on Children and is internationally recognized for establishing standards of child welfare practice and program management. The Child Welfare League conducted a review of the programs of the Covenant House subsidiary, Under 21, which runs most of Covenant House's programs in New York. Because of its length, the report of the Child Welfare League is submitted in a separate volume. The following summary has been prepared in consultation with the Child Welfare League and in their opinion is accurate and complete. All emphasis below is in the original.

**B. The Methodology of the Review.**

The Child Welfare League was retained to review the programs of Under 21 in terms of Covenant House's mission statement as well as against recognized and appropriate standards of care. The review was conducted between April and July of 1990 by a team of five professionals from the League's Center for Program Excellence. The review methods included interviews with Covenant House directors, administrators (in New York City as well as at other locations), staff and residents as well as with representatives of community agencies that work with Covenant House, including law enforcement, substance abuse, child welfare and education agencies. The review also included a review of Covenant House policies, reports, evaluations, budgets and program data.

**C. Summary of Findings.**

The principal conclusions reached by the Child Welfare League include the following:

"1. The Under 21 is generally well-conceived, appropriately structured, and is a sound response to the needs of homeless youth.

"2. The needs of the young people served by Under 21 are extremely compelling and, in general, very difficult for communities to address constructively.

"3. Members of the community who are familiar with Covenant House and the youth whom it serves place an extraordinarily high value on the services being provided by Under 21.

"4. Under 21 provides services which fill a niche which would otherwise be only partially filled in New York. The City is heavily dependent on the continuing capacity of Covenant House to provide emergency shelter and intervention services to young people.

"5. Covenant House is *not alone* in its response to this group of clients. However, it does appear to be unique in its capacity to:

– accept a wide variety of youth on a generally nonselective basis;

- maintain an exceptionally high volume of client intake; and
- achieve a *relatively* high level of effectiveness in providing secure shelter and an opportunity for stability.

"6. Notwithstanding the generally positive assessment of Under 21, there are numerous areas, some of them significant, of *relative weakness*. These areas need to be addressed in order to assure that Covenant House continues to be an effective resource for its clients.

"A predominant image of the Covenant House Under 21 Program emerges from this review. **Highly motivated volunteers and staff have been able to translate their commitment to their own interpretations of the Covenant House 'mission' into a positive service despite the lack of clear and consistent organizational direction and support.**

"The services provided by the agency have been 'good' principally because the people who have provided them have, themselves, been 'good', in a sense of both skill and motivation. If the people had been less 'good', the results might have been far less positive.

"In part, this is what might be expected in any situation where an organization has grown up around a single powerful individual. In such circumstances, organizational capacity is often considered to be less important than individual capacity."

The Child Welfare League found that Covenant House is currently addressing fundamental issues of program and administration. The League concluded that this self-examination, had it not been precipitated by the recent crisis, probably would have occurred anyway. The questions raised in this self-examination include the following:

Is the mission of Covenant House primarily to provide emergency shelter or does it include more?

Should the priority target group be children or young adults or both?

Should Covenant House's commitment to "open intake" be implemented literally by accepting all individuals in need of shelter or should it be modified by practical considerations of program capacity and capability?

Do the concepts of emergency shelter, intervention, transitional care and therapeutic care fit together?

Should the Under 21 board or the corporate board be in charge of New York programs?

The Child Welfare League stated that, although "it is not possible to evaluate the full quality and effectiveness of a program which is in a state of major transition", the following observations and conclusions were warranted:

"It is essential that Covenant House make clear decisions about its expectations for the scope and content of Under 21 programs. These should occur with all due speed. However, it is equally important that they reflect the thinking of an appropriate crosssection of volunteers and staff and that the people who must implement them understand and agree with the expected outcomes.



"The local boards for New York programs should have necessary authority to operate their programs with the same degree of autonomy as is afforded to the programs in other cities.

"Consolidation of the boards and the administration of Under 21 and Rights of Passage has the potential to improve substantially the operations of Covenant House programs in New York . . .

"The principle of 'open intake' is an important element of Covenant House's capacity to serve as a unique resource and should continue to be a central part of its operational philosophy. **However, it has not, and cannot, be implemented literally. Therefore, it should not be represented that it is.** Rather, it should be clear to all, both inside and outside of the agency, that it is realistically tempered by considerations of:

- individual client behavior;
- the realistic limitations of Under 21 and its staff in *not* being able to respond appropriately to all people, regardless of their needs; and
- physical capacity of the shelter facility.

"Covenant House should never turn a young person back to the streets strictly on the basis of available beds. The unique value of its role should be manifested by:

- an 'elastic' physical capacity, backed by a flexible staffing capacity; and
- a willingness to connect and place clients in appropriate alternative programs.

"In responding to demands over its usual capacity, Under 21 should clearly recognize the risks to itself and its clients which can result from overcrowding and should be prepared to make maximum use of alternative resources when necessary.

"Under 21 should establish a consistent set of expectations for case planning and case management and apply them within all units. This should include the development of an enhanced capacity to:

- provide appropriate referral and connection to other programs;
- maintain aftercare services when appropriate; and
- provide continuity of case planning and goal setting for those clients who experience multiple admissions to the program.

"The administrative structure of Under 21 should be modified, consistent with the general recommendations of the October 1989 staff report, to provide more consistent supervision and lines of accountability at all levels.

"Under 21 should continue its efforts to engage its staff in the problem-solving process by responding to legitimate concerns about agency policies, practices, and working conditions.

"Covenant House should enhance its efforts to maintain effective communication and working relationships with community groups and agencies.

"Covenant House must recognize its accountability within the community by conforming to reasonable licensing standards. In turn, regulatory agencies should seek to

take full advantage of the unique capabilities of Covenant House by assuring that licensing standards do not inadvertently or arbitrarily prevent it from serving its clients.”

In its summary of its findings, the Child Welfare League concluded as follows:

“Notwithstanding the significance of the multiple areas in which Under 21 performance should be improved, the essential character of its program lies in its capacity to respond to those young people who are most urgently in need. As such, it is an irreplaceable resource to the City of New York and is a sound model for delivering critically needed services to a population that is otherwise seriously underserved. From the perspective of this review, the probability that it will continue to do so in the future hinges on the ability of its leadership to make and implement the important decisions it now faces on a timely basis.

“Covenant House has demonstrated that it does have the capacity to operate successful programs. It is fortunate to have strong and capable people at its disposal. If it can reestablish its focus on a clear set of goals for itself and its clients it will continue to be successful.”



**PART VI****CONCLUSION**

The investigations described in this report have been intensive and comprehensive. It is unusual, to say the least, for an organization such as Covenant House to investigate itself in such a manner, and it is extraordinary, in our experience, for the results of the investigation to be made public. But the Board of Directors believed that the circumstances demanded no less.

As noted above, our mandate was to investigate any and all allegations of misconduct. No restrictions of any kind were placed on the scope of the investigation, and no limitations were placed on the nature of our report.

Covenant House staff members were directed to cooperate with our investigation, and they did. We were shown everything we asked to see. We interviewed hundreds of people, including Board members, staff, volunteers, residents and others.<sup>52</sup>

The investigation was difficult and disruptive for the Covenant House staff. As one might expect, many of them had great personal loyalty to Father Ritter, and the questions we asked were not easy. Nevertheless, the staff was forthcoming and cooperative.

Because our mandate was to investigate and report on allegations of misconduct, this report necessarily has focused on what was wrong. To be sure, we found problems; given the size of the organization and the scope and intensity of this investigation it could hardly be otherwise.

However, this report would be incomplete and seriously misleading if we did not say that we found far more right with Covenant House than we found wrong with it. Wherever we went, we found dedicated, honest and good people doing difficult, often thankless work under extraordinarily trying conditions. The organization is sound and its work is essential and effective. Covenant House must survive to serve those young people who are in desperate need of its services, and we are confident that, with the public's help and trust, it will.

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<sup>52</sup> As noted above, only Father Ritter and the Franciscans, except as noted above on page 15, note 13, declined to be interviewed. As noted therein, the Franciscans stated that because of obligations of confidentiality, they could not permit a broader inquiry.

## APPENDIX

### SUMMARY OF RECOMMENDATIONS AND REFORMS

#### Corporate Structure

After his resignation as President of Covenant House on March 19, 1990, Father Ritter resigned as "sole member" of Covenant House and transferred to the Board of Directors the power to amend the By-laws. On March 24, 1990, the Board of Directors amended the By-laws to eliminate the provision for members and to provide that the powers formerly vested in Father Ritter as sole member, including the power to appoint and remove directors and officers, were now vested in the directors. The current By-laws now provide in part as follows:

(i) The business of Covenant House shall be managed by a Board of Directors consisting of not less than six persons each of whom shall be at least 21 years of age. No employee of Covenant House or any affiliate of it, or any immediate family member of any such employee, may be a director. Directors are not entitled to compensation other than for expenses.

(ii) To insure continuity as well as change on the Board, the Board of Directors will be divided into three classes commencing with the annual meeting in November 1990. Directors will be elected for staggered, three-year terms. No person may serve for more than two consecutive three-year terms. In addition, directors incumbent as of March 23, 1990, may serve only one additional term commencing in November 1990.

(iii) All officers shall be elected or appointed by the Board, shall report to the Board and may be removed by the Board, with or without cause.

(iv) No loan may be entered into without Board authorization. Loans to directors or officers, or to any corporation or association in which a director or officer holds a significant financial interest, are prohibited. No director or officer may participate in or benefit from any transaction involving Covenant House unless the same has been approved by a two-thirds vote of the directors excluding the interested director.

(v) Article XII of the By-laws sets forth provisions adopted by Father Ritter immediately prior to his resignation as sole member of the corporation: Covenant House shall always observe "open intake"; the President of Covenant House shall always be a Roman Catholic priest, nun or brother; the directors shall have "due regard" for the Catholic origins and traditions of Covenant House; and the Provincial of the Immaculate Conception Province of Order Minor Conventuals (Father Ritter's Franciscan Order) is entitled to be a director at all times. Those provisions can only be changed by unanimous vote of the directors.

#### Committees

A new Audit Committee and a reinvigorated Finance Committee have been established.

#### Reporting Allegations of Misconduct

On March 14, 1990, the Covenant House Board of Directors adopted a policy providing that all allegations of serious misconduct involving senior officials be reported immediately to the Chairman of the Board and the General Counsel, as well as to the President in certain cases.

The policy, which applies to all employees of Covenant House and of all subsidiaries, provides in pertinent part as follows:

“Any allegation of serious misconduct involving any past or present employee, volunteer, or member of the Board of Directors, must be immediately reported to the appropriate level of the Board of Directors or management.

“Serious misconduct includes but is not limited to:

“(a) physical and mental abuse or any sexual activity with clients;

“(b) endangering the lives or welfare of clients;

“(c) any and all misappropriation or misuse of funds.”

The policy sets forth specific reporting procedures. Allegations involving the President or Chief Executive Officer (of Covenant House or any subsidiary) are to be reported to the Chairman of the Board, Vice Chairman and General Counsel of Covenant House. Allegations involving a board member are to be reported to the chairperson of that board (unless accused), President and Executive Director. Allegations concerning other employees are to be reported to the appropriate Executive Director and Chief Operating Officer. This Covenant House policy, which provides that “[f]ailure to follow the procedures of this policy may result in disciplinary action up to or including termination of employment”, has been distributed to all employees.

### **Conflicts of Interest**

The By-laws have been amended to provide that Covenant House may not enter into any transaction where a director or officer will participate or benefit, directly or indirectly, unless the Board of Directors has approved the transaction by a two-thirds majority excluding the vote of the member to be benefited.

The Board has also adopted a policy prohibiting Covenant House and its subsidiaries and affiliates from doing business with any entity owned or controlled by any director or officer or a member of his or her immediate family or in which any such person has a substantial financial interest unless specifically approved by the Board. A similar conflicts policy applicable to all staff is being promulgated.

### **Approval of Expenditures**

The Board has adopted a policy requiring the approval of the Finance Committee for any expenditure in excess of \$50,000 and requiring the approval of the full Board of Directors for any expenditure in excess of \$100,000.

### **Charitable Contributions**

The Board has adopted a policy that all charitable contributions of \$5,000 or more by Covenant House be made only with the specific approval of the Board or the Finance Committee. Contributions to entities controlled by an officer or director must be approved by vote of the Board excluding any interested member. In addition, there should be full disclosure of any such contribution on all appropriate filings and statements.

### **Loans to Officers, Directors and Employees**

The revised By-laws provide that Covenant House shall not make any loan unless authorized by the Board. The By-laws also include a provision prohibiting loans to directors and officers. Directors, officers and vendors should also be prohibited from making loans to any other director, officer or employee.

### **Competitive Bidding**

Covenant House's new competitive bidding policy provides that Covenant House will seek competitive, closed (sealed) bids for all contracts and purchases in excess of \$50,000. If it is impossible to obtain three competitive bids for any such contract, the transaction must be approved by the Board of Directors. In addition, a minimum of three bids are required to be obtained for any purchase in excess of \$500 (and such bids must be in writing if the purchase is in excess of \$1,500).

### **Employment of Relatives**

The employment of relatives policy of Covenant House now provides that Covenant House will not hire relatives of staff members or persons who share a common household to work in the same department or to work under the supervision of a relative without the approval of the Covenant House Personnel Director or the Vice President of Human Resources.

### **Internal Audit Department**

Covenant House has established a central internal auditing department and has hired an audit director. The director will report directly to the President and will have indirect reporting responsibility to the Audit Committee of the Board of Directors. The function of this department will be to insure compliance with all applicable policies and procedures and to investigate allegations of violations of such policies. Staff members have been informed of the existence of this department and directed to cooperate fully with it.

### **Compensation**

Covenant House has appointed Sister Mary Rose McGeady as its new President, effective September 1, 1990. Covenant House has entered into a written agreement with the Daughters of Charity, the community in which Sister Mary Rose McGeady serves, which provides that compensation in respect of her services will be paid directly to the community. Other priests, nuns and brothers are likely to hold other positions at Covenant House, and we recommend that Covenant House enter into a similar agreement regarding compensation in each case. There should be no alteration in method of payment except pursuant to an agreement with the applicable order. It is then the responsibility of the order to determine how the individual is compensated and how such funds are otherwise allocated to support the ministry of the order.

### **General Counsel**

We recommend that there be a policy requiring that the General Counsel of Covenant House not represent any director or officer in his or her individual capacity.

**Additional Recommendations Relating to Financial Systems and Procedures**

(a) All material contracts for construction and other major vendor contracts should provide that Covenant House has a right to audit the relevant books and records of the contractor or vendor to establish compliance with the terms of the contract.

(b) The number of petty cash funds and their balances should be kept to a minimum. All funds should be checked frequently and any differences investigated immediately and the proper documentation must be required before any funds are disbursed.

(c) The Board of Directors should assume a stronger role in the oversight of the agency's financial, operational and other programs. We believe that the Board has begun to do so. In this regard, we note that a new Audit Committee and a reinvigorated Finance Committee have been formed.

(d) Covenant House should exercise more control over the budgets and financial systems of its subsidiaries if it continues to provide a substantial part of their revenues. This must be addressed in the context of the overall review of parent-subsidiary relations currently under way.

