



US OFFICE OF PERSONNEL MANAGEMENT  
OFFICE OF THE INSPECTOR GENERAL  
OFFICE OF AUDITS

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# Final Audit Report

Subject:

**2005 AND 2006  
MIDLANDS AREA  
COMBINED FEDERAL CAMPAIGNS  
COLUMBIA, SOUTH CAROLINA**

Report No. 3A-CF-00-08-033

Date: October 29, 2008

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Office of the  
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

**AUDIT REPORT**

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MIDLANDS AREA  
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A handwritten signature in black ink, appearing to read "Michael R. Esser".

**Michael R. Esser**  
**Assistant Inspector General**  
**for Audits**



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

Office of the  
Inspector General

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## EXECUTIVE SUMMARY

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**2005 AND 2006  
MIDLANDS AREA  
COMBINED FEDERAL CAMPAIGNS  
COLUMBIA, SOUTH CAROLINA**

Report No. 3A-CF-00-08-033

Date: October 29, 2008

The Office of the Inspector General has completed an audit of the Midlands Area Combined Federal Campaigns (CFC) for 2005 and 2006. The United Way of the Midlands, located in Columbia, South Carolina, served as the Principal Combined Fund Organization (PCFO) during both campaigns. Our main objective was to determine if the Midlands Area CFC was in compliance with Title 5, Code of Federal Regulations, Part 950 (5 CFR 950), including the responsibilities of both the PCFO and Local Federal Coordinating Committee (LFCC). The audit identified five instances of non-compliance with the regulations (5 CFR 950) governing the CFC.

### BUDGET AND CAMPAIGN EXPENSES

- **PCFO Expense Reimbursement Not Properly Approved**

The PCFO's campaign expenses were not properly approved and documented by the LFCC before reimbursement.

- **Inappropriate Reimbursement for Audit Fees**

The PCFO incorrectly charged the 2006 CFC for audit fees related to the Agreed-Upon Procedures for the 2004 CFC. The reimbursement was not appropriate because the PCFO was not matching the audit fees with the appropriate campaign.

## CAMPAIGN RECEIPTS AND DISBURSEMENTS

- **One-Time Disbursements Exceed Established Threshold**

The PCFO incorrectly made one-time disbursements for the 2006 campaign to 13 member agencies/federations which had designations in excess of the threshold set by the LFCC.

- **One-Time Disbursements Reduced by Incorrect Pledge Loss Percentage**

The PCFO did not reduce one-time disbursement amounts by the appropriate pledge loss percentage for the 2006 campaign.

## ELIGIBILITY

- **Local Eligibility Determinations**

The LFCC did not directly make and communicate local eligibility determinations to the agencies and federations applying for inclusion in the 2006 campaign as required by the Federal regulations.

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# **I. INTRODUCTION AND BACKGROUND**

## **Introduction**

This report details the findings, conclusions, and recommendations resulting from our audit of the Midlands Area Combined Federal Campaigns (CFC) for 2005 and 2006. The audit was performed by the Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as authorized by the Inspector General Act of 1978, as amended.

## **Background**

The CFC is the sole authorized fund-raising drive conducted in Federal installations throughout the world. It consists of 278 separate local campaign organizations located throughout the United States, including Puerto Rico, the Virgin Islands, and Foreign assignments. The Office of Combined Federal Campaign Operations (OCFCO) at OPM has the responsibility for management of the CFC. This includes publishing regulations, memorandums, and other forms of guidance to Federal officials and private organizations to ensure that all campaign objectives are achieved.

CFC's are conducted by a Local Federal Coordinating Committee (LFCC) and administered by a Principal Combined Fund Organization (PCFO). The LFCC is responsible for organizing the local CFC, deciding on the eligibility of local voluntary organizations, selecting and supervising the activities of the PCFO, and acting upon any problems relating to a voluntary agency's noncompliance with the policies and procedures of the CFC. The PCFO is responsible for training employee key-workers and volunteers; preparing pledge cards and brochures; distributing campaign receipts; submitting to an extensive and thorough audit of its CFC operations by an Independent Certified Public Accountant (IPA) in accordance with generally accepted auditing standards; cooperating fully with OIG audit staff during audits and evaluations; responding in a timely and appropriate manner to all inquiries from participating organizations, the LFCC, and the Director of OPM; and consulting with federated groups on the operation of the local campaign.

Executive Orders No. 12353 and No. 12404 established a system for administering an annual charitable solicitation drive among federal civilian and military employees. Title 5, Code of Federal Regulations (CFR) 950, the regulations governing CFC operations, sets forth ground rules under which charitable organizations receive federal employee donations. Compliance with these regulations is the responsibility of the PCFO and LFCC. Management of the PCFO is also responsible for establishing and maintaining a system of internal controls.

The initial results of our audit were discussed with PCFO and LFCC officials during an exit conference held on June 6, 2008. A draft report was provided to the PCFO and the LFCC on June 23, 2008 for review and comment. The PCFO and LFCC's response to the draft report was considered in preparation of this final report and is included as an Appendix.

## **II. OBJECTIVES, SCOPE, AND METHODOLOGY**

### **OBJECTIVES**

The primary purpose of the audit of the Midlands Area CFC was to determine compliance with Title 5, Code of Federal Regulations, Part 950. Our specific audit objectives for the 2006 campaign were as follows:

#### **Eligibility**

- To determine if the charitable organization application process was open for the required 30 day period; if applications were appropriately reviewed, evaluated, and approved; and if the appeals process for rejected applicants was followed.

#### **Budget and Campaign Expenses**

- To determine if the PCFO's budget was in accordance with the regulations.
- To determine if expenses charged to the campaign were actual, reasonable, did not exceed 110 percent of the approved budget, and were properly allocated.

#### **Campaign Receipts and Disbursements**

- To determine if the total amount of funds received for the campaign, plus interest income, and less expenses, was properly distributed to the designated organizations.
- To determine if the total amount of undesignated funds was properly allocated and distributed to the various CFC participants.

#### **PCFO as a Federation**

- To determine if the PCFO distributed funds only to member agencies.
- To determine if the PCFO charged its member agencies for expenses in a reasonable manner.

Additionally, our audit objective for the 2005 campaign was:

#### **Audit Guide Review**

- To determine if the IPA completed the Agreed-Upon Procedures (AUP) as outlined in the CFC Audit Guide (For Campaigns with Pledges \$1 Million and Greater) for the 2005 campaign.

### **SCOPE AND METHODOLOGY**

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

The audit covered campaign years 2005 and 2006. The United Way of the Midlands, located in Columbia, South Carolina, served as the PCFO during both campaigns. The audit fieldwork was conducted at the offices of the United Way of the Midlands from June 2 through June 6, 2008. Additional audit work was completed at our Washington, D.C. office.

The Midlands Area CFC received campaign pledges, collected campaign receipts, and incurred campaign administrative expenses for the 2005 and 2006 campaigns as shown below:

Campaign <u>Year</u>	Total <u>Pledges</u>	Total <u>Receipts</u>	Administrative <u>Expenses</u>
2005	\$1,451,583	\$1,287,120	\$267,991
2006	\$1,485,384	\$1,286,900	\$193,062

In conducting the audit we relied to varying degrees on computer-generated data. Due to time constraints, we did not verify the reliability of the data generated by the various systems involved. However, our review did identify a software error that resulted in overpayments related to one-time disbursements. This audit issue is described in detail in the "Audit Findings and Recommendations" section of this report. Except for the audit issue mentioned above, nothing else came to our attention during our audit testing utilizing the computer-generated data to cause us to doubt its reliability.

We considered the campaign's internal control structure in planning the audit procedures. We gained an understanding of management procedures and controls to the extent necessary to achieve our audit objectives. We relied primarily on substantive testing rather than tests of internal controls. The audit included such tests of the accounting records and such other auditing procedures as we considered necessary to determine compliance with 5 CFR 950 and CFC Memorandums.

In order to determine that the LFCC and PCFO were in compliance with CFC regulations in regards to eligibility, we reviewed the following:

- The public notice to prospective charitable organizations to determine if the LFCC accepted applications from organizations for at least 30 days.
- The process and procedures for the application evaluation process.
- Sample eligibility letters to verify they were properly sent by the LFCC.
- The LFCC's processes and procedures for responding to appeals from organizations.

In regard to our objectives concerning the budget and campaign expenses, we accomplished the following:

- Reviewed the PCFO application and completed the PCFO application checklist.
- Reviewed a copy of the public notice to prospective PCFO's, and LFCC meeting minutes related to the selection of the PCFO.
- Traced and reconciled amounts on the PCFO's Schedule of Actual Expenses to the PCFO's general ledger.



- Reviewed supporting documentation for a judgmental sample of actual expenses from 13 expense accounts (out of a total of 31 expense accounts). Accounts were selected based on a nomenclature review, as well as high dollar amounts paid.
- Reviewed the LFCC meeting minutes and verified that the LFCC authorized the PCFO's reimbursement of campaign expenses.
- Compared the budgeted expenses to actual expenses and determined if actual expenses exceeded 110 percent of the approved budget.

To determine if the campaign receipts and disbursements were handled in accordance with CFC regulations, we reviewed the following:

- A judgmental sample of 25 pledge cards out of 8,426 pledge cards (selected the 5<sup>th</sup> pledge card from the first 25 pages of the Pledge Card Detail Schedule) and compared them to the Pledge Card Report prepared by the PCFO.
- Cancelled distribution checks to verify that the appropriate amount was distributed in a timely manner.
- One-time payments to verify that the PCFO properly calculated pledge loss and disbursed the funds in accordance with the ceiling amount established by the LFCC.
- The PCFO's most recent listing of outstanding checks to verify that the PCFO was following its policy for such checks.
- The Pledge Notification Letters to verify that the PCFO notified the CFC agencies of the designated and undesignated amounts due them before the March 15, 2006 deadline.
- The donor list letters sent by the PCFO to organizations to verify the letters properly notify the organization of the donors who wish to be recognized.
- Forms 1417 provided by the PCFO and the OCFCO to identify material differences.
- The PCFO Distribution Schedule to verify whether monthly disbursements reconcile with the PCFO's Campaign Receipts and Disbursements Schedule.
- All bank statements used by the PCFO for the 2006 campaign to verify that the PCFO was properly accounting for and distributing funds.
- The PCFO's cutoff procedures and bank statements to verify that funds were allocated to the appropriate campaign year.
- The General Designation Options and Undesignated Funds Spreadsheet and the Allocations and Disbursements Spreadsheet to verify disbursements were accurate and proportionate to the PCFO's allocation rates.

To determine if the PCFO was in compliance with the CFC regulations as a federation (The United Way of the Midlands), we reviewed the following:

- Data reported on the CFC Receipts Schedule with supporting documentation to verify whether receipts were properly recorded.
- The CFC Distribution Schedule to ensure that the United Way of the Midlands did not disburse any funds to member agencies not participating in the 2006 CFC.
- The United Way of the Midlands contract with its member agencies to determine if the fees were reasonable and supported.

The samples, mentioned above, that were selected and reviewed in performing the audit were not statistically based. Consequently, the results could not be projected to the universe since it is unlikely that the results are representative of the universe taken as a whole.

Finally, to accomplish our objective for the Audit Guide Review, we reviewed the CFC Audit Guide (for campaigns with pledges greater than \$1 million) and determined the type of audit to be completed by the IPA for the 2005 campaign. We also completed the AUP checklist to verify that the IPA completed and documented the AUP steps.

### **III. AUDIT FINDINGS AND RECOMMENDATIONS**

The PCFO and LFCC administered the 2005 and 2006 Midlands Area CFCs in compliance with all applicable CFC regulations with the exception of the following areas.

#### **A. BUDGET AND CAMPAIGN EXPENSES**

##### **1. PCFO Expense Reimbursement Not Properly Approved**

The LFCC did not appropriately authorize payment of the 2006 campaign expenses to the PCFO as required by the Federal regulations.

5 CFR 950.104(b)(17) states that the LFCC is responsible for "Authorizing to the PCFO reimbursement of only those campaign expenses that are legitimate CFC costs and are adequately documented. Total reimbursable expenses may not exceed the approved campaign budget by more than 10 percent." This provision is a control designed to help ensure that the PCFO reimburses itself for only appropriate and supportable expenses. Furthermore, 5 CFR 950.106(a) states that the PCFO is to recover expenses that reflect the actual cost of administering the campaign and are approved by the LFCC.

Our review of the LFCC meeting minutes did not identify whether the LFCC reviewed and/or approved the payment to the PCFO for its 2006 campaign-related expenses. Discussions with the PCFO determined that the actual campaign expenses were not submitted to the LFCC for approval because both the PCFO and LFCC believed that the approval of the budget for the 2006 campaign was sufficient approval for the reimbursement of the expenses. The PCFO said that, in the future, the actual campaign expenses will be submitted to the LFCC for approval and the approval will be documented in the LFCC meeting minutes.

As a result of the LFCC not reviewing and approving the actual 2006 campaign expenses, the PCFO could have been reimbursed for non-campaign related expenses or been reimbursed for more than 110 percent of the budgeted costs.

#### **PCFO and LFCC's Comments:**

The PCFO and the LFCC agree with this finding and stated that in the future they will ensure that the actual expenses are approved by the LFCC prior to reimbursement.

#### **Recommendation 1**

We recommend that the OCFCO ensure that the LFCC review, approve, and document its authorization of the PCFO's reimbursement for campaign expenses.

## **Recommendation 2**

We recommend that the OCFCO work with the LFCC to ensure that it understands its responsibilities as related to 5 CFR 950.104.

### **2. Inappropriate Reimbursement for Audit Fees**

The PCFO incorrectly charged the 2006 campaign for audit fees related to the AUPs for the 2004 campaign.

According to 5 CFR 950.106(b) "The PCFO may only recover campaign expenses from receipts collected for that campaign year."

Based on our review of 2006 campaign expenses, we determined that the PCFO incorrectly charged the 2006 campaign for expenses that should have been charged to the 2004 campaign. Specifically, we determined that the PCFO received and paid an invoice from its IPA for AUPs performed on the 2004 CFC in August 2006. Application of a 2004 audit fee to the 2006 Campaign is inappropriate because campaigns should only incur expenses related to that year's campaign.

Application of expenses to the incorrect campaign year will adversely effect the net designations due to the charities and result in the wishes of the CFC donors to not be fully realized.

### **PCFO and LFCC's Comments:**

The PCFO and the LFCC agree with this finding and stated that they are instituting procedures that will accrue the estimated audit fees for future campaigns, thereby properly matching the audit fees with the appropriate campaign year.

## **Recommendation 3**

We recommend that the OCFCO and LFCC work with the PCFO to put procedures in place to ensure that it properly matches expenses with the related campaign year.

## **B. CAMPAIGN RECEIPTS AND DISBURSEMENTS**

### **1. One-Time Disbursements Exceed Established Threshold**

The PCFO made one-time disbursements to 13 agencies which had gross designations over the ceiling amount stipulated by the LFCC.

5 CFR 950.901(i)(3) states, "The PCFO may make one-time disbursements to organizations receiving minimal donations from Federal employees. The LFCC must determine and authorize the amount of these one-time disbursements."

We reviewed all one-time disbursements made to agencies of the 2006 campaign to determine if any agencies with gross designations over the \$500 limit authorized by the LFCC received such a payment. We identified 13 agencies with gross designations in excess of \$500 which received one-time disbursements. According to the PCFO, it uses CFC Assistant (accounting software for CFCs) which automatically calculates what the one-time disbursements will be and the agencies which will receive them. However, there was an error with the software that allowed a number of agencies with gross designations over the ceiling amount to still receive one-time disbursements. The PCFO has tested the software, but could not determine how to correct the issue.

As a result, these agencies' distributions were inappropriately reduced by the average of three years pledge loss, which may have increased or reduced the actual funds they should have received.

**PCFO and LFCC's Comments:**

The PCFO and the LFCC agree with this finding and state that in the future they will manually review the calculations for one-time disbursements to ensure that agencies with gross designations above the ceiling amount do not receive a one-time disbursement.

**Recommendation 4**

We recommend that the OCFCO and LFCC ensure that the PCFO has policies and procedures in place that guarantee only those agencies and federations meeting the approved one-time disbursement threshold receive them.

**2. One-Time Disbursements Reduced by Incorrect Pledge Loss Percentage**

The PCFO did not reduce one-time disbursement amounts by the appropriate pledge loss percentage for the 2006 campaign.

5 CFR 950.901(i)(3) states, "The PCFO may deduct the proportionate amount of each organization's share of the campaign's administrative costs and the average of the previous 3 years pledge loss from the one-time disbursement."

We reviewed all one-time disbursements made to agencies of the 2006 campaign to determine if the appropriate amount of pledge loss was withheld by the PCFO. Our review determined that the PCFO incorrectly calculated and applied pledge loss of 9.9 percent to the disbursements for those agencies and federations receiving a one-time disbursement. The actual pledge loss which should have been deducted from the one-time disbursements was 12.9 percent. Per our discussions with the PCFO, it acknowledges the error and is working to correct the error for future campaigns.

As a result of applying a lower shrinkage percentage to agencies receiving one-time disbursements, those agencies received slightly higher disbursements and agencies receiving monthly disbursements received slightly less than they should have.

**PCFO and LFCC's Comments:**

The PCFO and the LFCC agree with this finding and indicated that the problem occurred as a result of an error by CFC Assistant, a software program used by the PCFO. The PCFO has not been able to replicate the error in the system, but will take extra steps to verify the calculation manually prior to making the one-time disbursements for future campaigns.

**Recommendation 5**

We recommend that the OCFCO and the LFCC ensure that the PCFO applies the appropriate pledge loss percentage to one-time payments in future campaigns.

**C. ELIGIBILITY**

**1. Local Eligibility Determinations**

The LFCC did not directly make and communicate local eligibility determinations for the agencies and federations applying for inclusion in the 2006 campaign as required by the Federal regulations.

5 CFR 950.104(b)(3) states that the LFCC is responsible for "Determining the eligibility of local organizations that apply to participate in the local campaign." Additionally, 5 CFR 950.204(e) states that "The LFCC shall communicate its eligibility decisions by a date to be determined by OPM ...."

We reviewed the LFCC meeting minutes and eligibility notification letters to determine if the LFCC made and communicated the eligibility decisions for charitable organizations applying to participate in the campaign. As a result of our review, we determined that the LFCC did not make or communicate the decisions for the 2006 campaign. The LFCC set up an "Eligibility Committee" made up of five Federal employees to "establish an annual application process consistent with CFR 950.204 and in accordance of the annual work calendar established by the Office of Personnel Management for organizations that wish to be listed in the Local Charity List in the annual Combined Federal Campaign brochure." The committee's responsibilities included: learning and enforcing all of the eligibility requirements according to CFR 950.204, reviewing local Federation and agency applications for inclusion in the upcoming campaign, and signing local application's acceptance and denial letters. Our review determined that none of the members of the Eligibility Committee were members of the LFCC and its decisions were not reviewed or approved by the LFCC.

It is the responsibility of the LFCC to make and communicate local eligibility decisions for the campaign. The LFCC may set up a committee, such as the Eligibility Committee now in place, to review the applications and appeals and make recommendations to the LFCC; however, the LFCC must make those decisions and communicate the acceptances and denials to the applying Federations and/or agencies.

By not making these eligibility determinations directly, the LFCC runs the risk of ineligible Federations and/or agencies being improperly included in the CFC.

**PCFO and LFCC's Comments:**

The PCFO and the LFCC agree with this finding. On its CFC Organization Chart, the Eligibility Committee is seen as a group equal to the Federal Executive Committee (FEC). Consequently, the LFCC did not believe having an FEC member serve on the Eligibility Committee to be necessary. For future campaigns, the LFCC will ensure that one of its members serves as the Chairman of the Eligibility Committee and presents the findings of the committee to the LFCC.

**Recommendation 6**

We recommend that the OCFCO ensure that the LFCC understands its responsibilities regarding local eligibility decisions and communication of those decisions to the applicants as outlined in 5 CFR 950.104(b)(3) and 5 CFR 950.204(e).

#### **IV. MAJOR CONTRIBUTORS TO THIS REPORT**

##### **Special Audits Group**

██████████ Auditor-In-Charge

██████████ Auditor

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United Way  
of the Midlands

July 29, 2008

[REDACTED]  
Office of Personnel Management  
Office of the Inspector General  
1900 E. Street, NW, Room 6400  
Washington, DC 20415-1100

Dear [REDACTED]:

This is in response to your correspondence dated June 23, 2008 regarding a draft report detailing the results of the 2005 and 2006 Midlands Area Combined Federal Campaign (CFC) audit conducted by the Office of Personnel Management.

We appreciate your recommendations and have addressed each of the findings highlighted in your report. Enclosed is United Way of the Midlands' response. It was a pleasure working with you and [REDACTED] during the audit process.

If I can be of further assistance, please contact me by telephone, [REDACTED] or by email, [REDACTED].

Sincerely,

[REDACTED]  
Director  
Midlands Area CFC

[REDACTED]  
Enclosure

## **BUDGET AND CAMPAIGN EXPENSES**

- **PCFO Expense Reimbursement Not Properly Approved**

The PCFO's campaign expenses were not properly approved and documented by the LFCC before reimbursement.

**PCFO and LFCC's Comments:**

The PCFO and the LFCC agree with this finding. In our annual application, we typically have presented the previous year's budget and actual results. We also submit the proposed budget. Going forward, we will ensure that the actual expenses are approved by the LFCC prior to reimbursement.

- **Inappropriate Reimbursement for Audit Fees**

The PCFO incorrectly charged the 2006 CFC for audit fees related to the Agreed Upon Procedures for the 2004 CFC. The reimbursement was not appropriate because the PCFO was not matching the audit fees with the appropriate campaign.

**PCFO and LFCC's Comments:**

The PCFO and the LFCC agree with this finding. We are learning better how to match expenses with the actual campaign. Since we do not incur the audit fees relative to a given campaign until approximately two years after the fact, we will begin accruing these charges based on our best estimates in the future. We have accrued the most recent audit bill to the 2007 campaign. However this billing, which was recently incurred, was for the 2006 campaign. The audit bill for the 2007 campaign will not be incurred until sometime in 2009. One remedy would be to accrue a double audit bill against the 2007 campaign. Until we hear further, we will accrue one year's audit billing.

## **CAMPAIGN RECEIPTS AND DISBURSEMENTS**

- **One-Time Disbursements Exceed Established Threshold**

The PCFO incorrectly made one-time disbursements for the 2006 campaign to thirteen member agencies/federations which had designations in excess of the threshold set by the LFCC.

**PCFO and LFCC's Comments:**

The PCFO and the LFCC agree with this finding. The United Way of the Midlands uses CFC Assistant as its CFC Campaign Administrative software. When the one-time disbursement figure of \$500 is input into the software, the software calculates a payout for

every organization whose net paid amount after shrinkage and administrative expenses is less than \$500. Unfortunately this results in the gross amount exceeding the \$500 one time payout limit. In the future, we will fine tune this calculation to ensure that the gross pay amounts do not exceed \$500.

- **One-Time Disbursements Reduced by Incorrect Shrinkage Percentage**

The PCFO did not reduce one-time disbursement amounts by the appropriate average three year pledge loss (shrinkage) percentage for the 2006 campaign.

**PCFO and LFCC's Comments:**

The PCFO and the LFCC agree with this finding. The CFC Assistant software apparently had a "glitch" in doing this calculation for the 2006 campaign. The percentage is based on a three year moving average. Manually, and re-executing this transaction in a test environment, we did determine that the percentage amount calculated was in error. We have not been able to replicate the error, but will take extra steps to verify the calculation manually prior to making the one-time disbursements next year.

### **ELIGIBILITY**

- **Local Eligibility Determinations**

The LFCC did not directly make and communicate local eligibility determinations to the agencies and federations applying for inclusion in the 2006 campaign as required by the Federal regulations.

**PCFO and LFCC's Comments:**

The PCFO and the LFCC agree with this finding. On our CFC Organization Chart, the Eligibility Committee is seen as a group equal to the Federal Executive Committee. Therefore, it was not seen as a requirement that a member of the FEC serve on the Eligibility Committee because they had equal authority on the organization chart. We have corrected this by securing a member of the FEC to serve as the Chairman of the Eligibility committee. The Chairman will make a presentation at the June FEC meeting.