



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

Final Audit Report

Subject:

**AUDIT OF THE 2005 AND 2006
EAST ALABAMA AREA
COMBINED FEDERAL CAMPAIGNS
ANNISTON, ALABAMA**

Report No. 3A-CF-00-08-032

Date: January 30, 2009

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

AUDIT REPORT

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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

EXECUTIVE SUMMARY

**AUDIT OF THE 2005 AND 2006
EAST ALABAMA AREA
COMBINED FEDERAL CAMPAIGNS
ANNISTON, ALABAMA**

Report No. 3A-CF-00-08-032

Date: January 20, 2009

The Office of the Inspector General has completed an audit of the East Alabama Area Combined Federal Campaigns (CFC) for 2005 and 2006. The United Way of East Central Alabama, located in Anniston, Alabama, served as the Principal Combined Fund Organization (PCFO) during both campaigns. Our main objective was to determine if the East Alabama 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 four instances of non-compliance with the regulations (5 CFR 950) governing the CFC.

AUDIT GUIDE REVIEW

• **Required Reports Not Submitted or Submitted Untimely by the LFCC**

The LFCC did not submit or submitted late required reports on the 2005 and 2006 CFC campaigns.

BUDGET AND CAMPAIGN EXPENSES

• **Campaign Expenses Charged to the Incorrect Campaign Year**

The PCFO incorrectly charged \$1,812 to the 2006 campaign for audit fees related to the 2005 campaign.

- **PCFO Expense Reimbursement Not Approved by the LFCC**

The LFCC did not review or approve the PCFO's reimbursement of campaign expenses for the 2006 campaign.

CAMPAIGN RECEIPTS AND DISBURSEMENTS

- **One-Time Disbursement Threshold Not Approved by the LFCC**

The LFCC did not determine the one-time disbursement threshold amount or authorize the PCFO to make such payments for the 2006 CFC 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 East Alabama 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 and 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 12353 and 12404 established a system for administering an annual charitable solicitation drive among Federal civilian and military employees. Title 5, Code of Federal Regulations 950 (5 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.

Our previous audit of the East Alabama Area CFC was completed in 1997 and covered the 1994 through 1996 campaigns. The audit identified one area of non-compliance, which was satisfactorily resolved through the OCFCO.

The initial results of our audit were discussed with PCFO officials during an exit conference held on June 12, 2008. A draft report was provided to the PCFO and the LFCC on

September 17, 2008, for review and comment. The PCFO's responses to the draft report were considered in preparation of this final report and are included as Appendices.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The primary purpose of the audit of the East Alabama Area CFC was to determine compliance with 5 CFR 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 February 2007 CFC Audit Guide (For Campaigns with Pledges \$150,000 to \$999,999) [CFC Audit Guide] 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 East Central Alabama, located in Anniston, Alabama, served as the PCFO during both campaigns. The audit fieldwork

was conducted at the PCFO's offices from June 9 through June 13, 2008. Additional audit work was completed at our Washington, D.C. office.

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

Campaign Year	Total Pledges	Total Receipts	Administrative Expenses
2005	\$430,325	\$414,937	\$46,430
2006	\$502,477	\$469,571	\$58,065

In conducting the audit we relied to varying degrees on computer-generated data. Our review of a sample of campaign expenses and supporting data, a sample of pledge card entries, and the distribution of campaign contributions and related bank statements verified that the computer-generated data used in conducting the audit was reliable. 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 whether the LFCC and PCFO were in compliance with the CFC eligibility regulations, 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 order to address our objectives concerning the budget and campaign expenses, we accomplished the following:

- Reviewed the PCFO application and completed the PCFO application checklist.
- Reviewed the PCFO application for the 2006 campaign, 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 14 actual expenses from 5 expense accounts (out of 17 expenses accounts). Accounts were selected based on 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 whether the campaign receipts and disbursements were handled in accordance with CFC regulations, we reviewed the following:

- A judgmental sample of 25 out of 2,354 pledge cards (selected by high total dollars pledged from the pledge card detail schedule) and compared them to the Pledge Card Report and actual pledge cards from the PCFO.
- Cancelled distribution checks to verify that the appropriate amount was distributed in a timely manner.
- One-time disbursements 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 that the 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 whether the 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 East Central Alabama), we reviewed the following:

- Data reported on the CFC Receipts Schedule with supporting documentation to verify if the receipts were properly recorded.
- The CFC Distribution Schedule to determine if the United Way of East Central Alabama disbursed funds to member agencies not participating in the 2006 CFC.
- The United Way of East Central Alabama contract with its member agencies to determine if the fees were reasonable and supported.

The samples selected and reviewed above 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 and determined the type of audit to be completed by the IPA for the 2005 campaign. We also completed the AUP checklist to verify if the IPA completed and documented the AUP steps.

III. AUDIT FINDINGS AND RECOMMENDATIONS

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

A. AUDIT GUIDE REVIEW

1. Required Reports Not Submitted or Submitted Untimely by LFCC

The LFCC did not submit or was late in submitting required reports related to the 2005 and 2006 campaigns.

According to the CFC Audit Guide, Chapter I, PCFO, LFCC and IPA Reporting Responsibilities, the LFCC was required to submit the PCFO's most recent organization-wide financial statements, the LFCC Compliance Assessment for the 2006 campaign, and AUPs and the related corrective action plan, if applicable, for the 2005 campaign to OPM by September 15, 2007.

We requested these documents from the OCFCO and reviewed them to determine whether they were submitted by the required deadline. Our review showed that the LFCC:

- Did not submit the PCFO organization-wide financial statements to OPM;
- submitted the LFCC Compliance Assessment for the 2006 Campaign to OPM on September 21, 2007, 6 days late, and;
- submitted the AUPs for the 2005 campaign to OPM on September 21, 2007, 6 days late.

PCFO's Comments:

The PCFO agrees with this finding. They stated that in the future, the LFCC will make every effort to submit the required reports on time.

Recommendation 1

We recommend that the OCFCO and PCFO work with the LFCC to ensure that it provides the required reports by the due date as set forth in the CFC Audit Guide.

B. BUDGET AND CAMPAIGN EXPENSES

1. Campaign Expenses Charged to the Incorrect Campaign Year **\$1,812**

The PCFO incorrectly charged the 2006 campaign \$1,812 for audit fees related to the AUPs for the 2005 campaign.

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

We reviewed the 2006 campaign expenses to determine if the expenses were charged to the correct campaign year. We determined that the PCFO received and paid three invoices, totaling \$1,812, from its IPA for AUPs performed for the 2005 campaign. Based on our review, we determined that the PCFO incorrectly charged the 2006 campaign for expenses that should have been charged to the 2005 campaign. Application of a 2005 expense to the 2006 campaign is inappropriate because campaigns should only incur expenses related to that year’s campaign.

Additionally, 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 not being fully realized, and may result in future difficulty in tracing expenses from previous campaigns.

PCFO’s Comments:

The PCFO agrees with the finding and stated that it would begin setting aside monies in an escrow account to be used to cover the cost associated with the IPA’s review and AUPs.

Recommendation 2

We recommend that the OCFCO and LFCC verify that the PCFO has put procedures in place to ensure that expenses are charged to the campaign year they are related to.

2. PCFO Expense Reimbursement Not Approved by the LFCC

The LFCC did not review or approve the \$58,065 in 2006 campaign expenses prior to the PCFO’s reimbursement.

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 where the LFCC reviewed the PCFO reimbursement request or authorized the PCFO to reimburse itself \$58,065 for the expenses it incurred for the 2006 campaign. In addition, the PCFO was unable to provide any other documentation showing that the LFCC authorized the reimbursement.

As a result, we concluded that the LFCC did not review the 2006 campaign expenses nor approve the reimbursement expenses to ensure that the expenses were appropriate and were not more than 110 percent of the approved budget.

PCFO's Comments:

The PCFO disagrees with the finding and stated that on April 10, 2007 it discussed the 2006 campaign's expenses and reviewed actual expenses against the budget with the LFCC chairperson, and that it was determined that the actual expenses were in line with the budget. As a result, the LFCC chairperson agreed to approve the expenses and a check was written to cover the campaign expenses on April 13, 2007. On April 24, 2007, the regular LFCC meeting was held and the expenses were again reviewed against the budget and a vote approving the reimbursement was taken.

OIG Comments:

Based on the LFCC meeting minutes provided with their response, the PCFO is correct that the reimbursement was approved on April 24, 2007. However, the physical reimbursement of these expenses was made on April 13, 2007 11 days prior to the approval. This is not a correct application of the "approval" process. The approval of one member of the LFCC, even the chairperson, does not substantiate approval of the entire LFCC. Proper approval should be obtained prior to the reimbursement of costs.

Furthermore, review of the meeting minutes determined that the LFCC did not review the expenses to determine if they were "legitimate CFC costs" and were "adequately documented." The meeting minutes state the following:

██████████ explained that the budget was \$56,315 however expenses totaled \$58,065.20 which is 8.9% over the approved budget. OPM allows for the PCFO to be reimbursed up to 10% over the approved budget therefore on the motion of ██████████ and second of ██████████ the United Way will be reimbursed the total expenses."

Based upon the meeting minutes and the PCFO's explanation, the only review by the LFCC was to determine that the expenses did not exceed the budget by 10 percent. It is the responsibility of the LFCC to ensure that the expenses charged to the CFC are legitimate and adequately documented; if that is not the case, they are not to be approved for reimbursement.

Recommendation 3

We recommend that the OCFCO ensure that the LFCC review the campaign expenses before reimbursement to the PCFO, and that its basis for the approval is fully explained and appropriately documented in the LFCC meeting minutes.

Recommendation 4

We recommend that the OCFCO ensure that the PCFO obtains the approval of the LFCC prior to the reimbursement of campaign expenses.

C. CAMPAIGN RECEIPTS AND DISBURSEMENTS

1. One-Time Disbursement Threshold Not Approved by the LFCC

The LFCC did not determine the one-time disbursement threshold amount or authorize the PCFO to make such payments for the 2006 CFC campaign as required by the Federal regulations.

5 CFR 950.901 (i) (3) states that 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 the LFCC meeting minutes to determine if the LFCC determined the amount of (i.e., threshold amount) and authorized one-time disbursements for the 2006 campaign. As a result of our review, we found that the LFCC did not set the one-time disbursement threshold nor authorize the one-time disbursement.

The PCFO informed us at the exit conference that it was not aware that the LFCC had to approve the threshold for one-time disbursements for each campaign. Instead it used a \$500 threshold that was established a number of years ago.

To comply with the regulation for future campaigns, the LFCC and PCFO should establish a one-time payment amount for each campaign year, and clearly document its approval and the criteria the PCFO is to use to calculate the threshold amount.

PCFO’s Comments:

The PCFO agrees with this finding and stated that in the future the LFCC will set the threshold annually for each campaign.

Recommendation 5

We recommend that the OCFCO verify that procedures have been put in place that ensure that the LFCC properly sets the one-time disbursement threshold amount and authorizes one-time disbursements for each campaign year.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

██████████ Auditor-In-Charge

██████████ Auditor

██████████ Group Chief ██████████

██████████ Senior Team Leader

NOV 17 2008

October 27, 2008

Office of Personnel Management
Office of Inspector General
Attention: [REDACTED]
1900 E Street, N.W., Room 6400
Washington, DC 20415-1100



Dear [REDACTED]

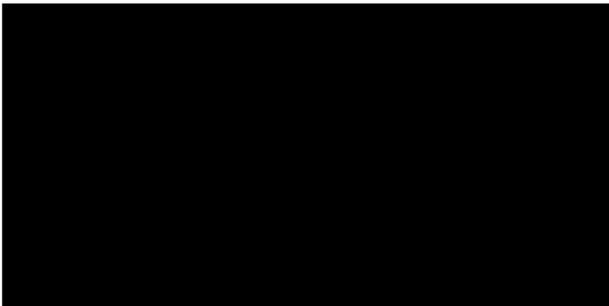
The East Central Alabama Combined Federal Campaign agrees with the finding under **A.1. Required Reports Not Submitted or Untimely Submitted by the LFCC**, in that the reports were submitted late. In the future, the LFCC will make every effort to submit required reports on time.

The East Central Alabama Combined Federal Campaign disagrees with the finding under **B.1. Principal Combined Fund Organization (PCFO) Expense Reimbursement not Approved by the LFCC**. Attached are the April 24, 2007 minutes of the LFCC which show that this reimbursement was approved. Also attached are the February 22, 2006 minutes of the LFCC showing that year's reimbursement was approved.

The East Central Alabama Combined Federal Campaign agrees with the finding under **B.2. Inappropriate Reimbursement for Audit Fees**. The fee of \$1,811 was charged to the 2006 campaign because the 2005 campaign and all its disbursements were required to be closed out prior to AUP. Attached is the method that will be used in the future to reimburse fees required for AUP.

The East Central Alabama Combined Federal Campaign agrees with the finding under **C.1. One Time Distribution Threshold Not Approved by LFCC**. In the future LFCC will follow **Recommendation 5** by setting this threshold annually for each campaign.

If you need further clarification, please contact me. Thanks for your assistance with this matter.



United Way of East Central Alabama

-----Original Message-----

From: [REDACTED]

Sent: Monday, January 12, 2009 11:07 AM

To: [REDACTED]

Cc: [REDACTED]

Subject: RE: Administrative Expenses Reimbursement Approved by the LFCC

[REDACTED]

On April 10, 2007 United Way of East Central Alabama as PCFO discussed campaign expenses, reviewed actual expenses against budgeted, with the LFCC chairperson. We determined after a review that the actual expenses were in line with the budget and the LFCC chairperson agreed to approve the expenses in order that a check could be written to cover the actual expenses. A check was written on April 13, 2007 to cover the actual expenses of the campaign. On April 24, 2007 during the monthly LFCC meeting the campaign expenses were reviewed against the budget and a vote to approve the decision for reimbursement was taken. The LFCC approved the reimbursement.

Thanks for your assistance.

[REDACTED]
Executive Director
United Way of East Central Alabama

[REDACTED]
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[REDACTED]
