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**U.S. OFFICE OF PERSONNEL MANAGEMENT  
OFFICE OF THE INSPECTOR GENERAL  
OFFICE OF AUDITS**

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# Final Audit Report

**AUDIT OF THE 2011 AND 2012  
LONG ISLAND  
COMBINED FEDERAL CAMPAIGNS**

**Report Number 3A-CF-00-14-049  
February 11, 2015**

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# EXECUTIVE SUMMARY

## *Audit of the 2011 and 2012 Long Island Combined Federal Campaigns*

Report No. 3A-CF-00-14-049

February 11, 2015

### **Why Did We Conduct the Audit?**

The main objective of the audit was to determine if the Long Island CFC was administered in compliance with 5 CFR 950, including the responsibilities of both the Principal Combined Fund Organization (PCFO) and the Local Federal Coordinating Committee (LFCC).

### **What Did We Audit?**

The Office of the Inspector General has completed a performance audit of the responsibilities of the PCFO and LFCC in regards to Budget and Campaign Expenses, Campaign Receipts and Disbursements, Eligibility, the PCFO's activities as a Federation, and Fraud and Abuse for the 2012 campaign. Additionally, we reviewed the Independent Public Accountant's Agreed-Upon Procedures audit of the 2011 campaign. Our audit was conducted from June 16 through 20, 2014, at the PCFO's offices in Deer Park, New York.

### **What Did We Find?**

We determined that the PCFO and LFCC need to strengthen their procedures and controls related to the Audit Guide, Budget and Campaign Expenses, Campaign Receipts and Disbursements, and Eligibility. Our audit identified 11 areas requiring improvement and one program concern related to the **LFCC's lack of oversight and participation in campaign matters**. Specifically, we would like to highlight the following program concerns identified by our audit.

- LFCC members sent replacements to attend LFCC meetings instead of attending themselves.
- The LFCC did not respond or provide a corrective action plan to the audit issues related to its non-compliance with the CFC regulations.
- The LFCC did not review or authorize the PCFO's reimbursement of actual campaign expenses.
- The LFCC included one member who was not a Federal employee.
- We identified \$10,791 in unallowable expenses charged to the 2012 campaign.
- The PCFO incorrectly applied CFC receipts to the wrong campaigns.
- The PCFO did not make the initial, one-time disbursement by the required deadline.
- The PCFO did not have the required policies and procedures for un-cashed checks.



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*Assistant Inspector General  
for Audits*

# ABBREVIATIONS

<b>5 CFR 950</b>	<b>Title 5, Code of Federal Regulations, Part 950</b>
<b>AUP</b>	<b>Agreed-Upon Procedures</b>
<b>CFC</b>	<b>Combined Federal Campaign</b>
<b>CFR</b>	<b>Code of Federal Regulations</b>
<b>IPA</b>	<b>Independent Public Accountant</b>
<b>LE</b>	<b>Loaned Executives</b>
<b>LFCC</b>	<b>Local Federal Coordinating Committee</b>
<b>NALC</b>	<b>National Association for Letter Carriers</b>
<b>OCFC</b>	<b>Office of the Combined Federal Campaign</b>
<b>OIG</b>	<b>Office of the Inspector General</b>
<b>OPM</b>	<b>U.S. Office of Personnel Management</b>
<b>PCFO</b>	<b>Principal Combined Fund Organization</b>
<b>USPS</b>	<b>United States Postal Service</b>
<b>UWLI</b>	<b>United Way of Long Island</b>

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# I. INTRODUCTION AND BACKGROUND

## **Introduction**

This final report details the findings and conclusions resulting from our audit of the 2011 and 2012 Long Island Combined Federal Campaigns (CFC). The audit was performed by the U.S. 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. In 2012, it consisted of 184 separate local campaign organizations located throughout the United States, including Puerto Rico and the Virgin Islands, as well as overseas locations. OPM's Office of the Combined Federal Campaign (OCFC) has the responsibility for management of the CFC. This responsibility includes publishing regulations, memoranda, and other forms of guidance to Federal offices and private organizations to ensure that all campaign objectives are achieved.

Each CFC is 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; determining the eligibility of local voluntary organizations; selecting and supervising the activities of the PCFO; encouraging Federal agencies to appoint Loaned Executives (LE), Federal employees who are temporarily assigned to work directly on the CFC, to assist in the campaign; ensuring that employees are not coerced to participate in the campaign; and acting upon any problems relating to noncompliance with the policies and procedures of the CFC.

The primary goal of the PCFO is to administer an effective and efficient campaign in a fair and even-handed manner aimed at collecting the greatest amount of charitable contributions possible. Its responsibilities include training LEs, coordinators, employee keyworkers and volunteers; maintaining a detailed schedule of its actual CFC administrative expenses; preparing pledge forms and charity lists; distributing campaign receipts; submitting to an audit of its CFC operations by an Independent Public Accountant (IPA) in accordance with generally accepted auditing standards; cooperating fully with the 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; consulting with federated groups on the operation of the local campaign; and for establishing and maintaining a system of internal controls.

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, Part 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 the LFCC.

The previous audit of the Long Island CFC, which covered the 2004 campaign, was not considered when planning for this audit due to its age.

The initial results of our current audit were discussed with the PCFO during our exit conference on June 20, 2014. A draft report was provided to both the PCFO and the LFCC for review and comment on September 24, 2014. Their response to the draft report was considered in preparation of this final report and is included as an Appendix.

## II. OBJECTIVES, SCOPE, AND METHODOLOGY

### **Objective**

The primary purpose of this audit was to determine compliance with 5 CFR 950.

Our audit objective for the 2011 campaign was:

#### **Audit Guide Review**

- To determine if the IPA completed the Agreed-Upon Procedures (AUPs) as outlined in the CFC Audit Guide.

Additionally, our audit objectives for the 2012 campaign were as follows:

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

- To determine if the PCFO solicitation, application, campaign plan, and budget were in accordance with the regulations.
- To determine if the PCFO charged the campaign for interest expenses and if the appropriate commercial loan was used.
- 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 pledge form format was correct and if the pledge form report agrees with the actual pledge form.
- To determine if incoming pledge monies (receipts) were allocated to the proper campaign and if the net funds (less expenses) were properly distributed to member agencies and federations.
- To determine if the member agencies and federations were properly notified of the amounts pledged to them and that donor personal information was only released for those who requested the release of information.

#### **Eligibility**

- To determine if the charity list (CFC brochure) was properly formatted and contained the required information.
- To determine if the charitable organization application process was open for the required 30-day period; if the applications were appropriately reviewed and approved; if the applicants were notified of the eligibility decisions in a timely manner; and if the appeals process for denied applications was followed.
- To determine if any non-Federal employees or retirees were members of the LFCC.

**PCFO as a Federation**

- To determine if the amounts received by the United Way of Long Island (UWLI) as a federation reconciled to those disbursed by the CFC; if the UWLI properly distributed funds to its federation members; if expenses charged by the UWLI (to its federation members) were documented properly; and if the disbursements made to the federation members were accurate.

**Fraud and Abuse**

- To determine what policies and procedures the PCFO has in place related to detecting and preventing fraud and abuse and if they are adequate.

**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 2011 and 2012. The UWLI, located in Deer Park, New York, served as the PCFO during both campaigns. The audit fieldwork was conducted at the PCFO’s office from June 16 through 20, 2014. Additional audit work was completed at our Cranberry Township, Pennsylvania, and Washington, D.C. offices.

The Long Island CFC received campaign pledges, collected campaign receipts, and incurred campaign administrative expenses for the 2011 and 2012 campaigns as shown below.

Campaign Year	Total Pledges	Total Receipts	Administrative Expenses
2011	\$719,679	\$705,417	\$154,750
2012	\$647,074	\$620,535	\$158,199

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 form entries, and the distributions of campaign contributions and related bank statements, verified that the computer-generated data used in conducting the audit was reliable. Nothing came to our attention during our review of the 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 the 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 tests of accounting records and such other auditing procedures as we considered necessary to determine compliance with 5 CFR 950 and CFC Memoranda issued by the OCFC.

To accomplish our objective concerning the 2011 campaign (Audit Guide Review), we compared the IPA's working papers to the requirements of the CFC Audit Guide to verify that the AUP steps were completed and properly documented.

In regard to our objectives concerning the 2012 campaign's budget and campaign expenses, we performed the following procedures:

- Reviewed the PCFO's application to verify that it was complete.
- Reviewed a copy of the public notice to prospective PCFOs, and the LFCC meeting minutes, to verify that the PCFO was selected in a timely manner.
- Traced and reconciled amounts on the PCFO's Schedule of Actual Expenses to the PCFO's general ledger.
- Reviewed the PCFO's budgeted expenses and the LFCC's approval of the budget, and matched all expenses to supporting documentation.
- Reviewed the LFCC meeting minutes and verified that the LFCC authorized the PCFO's reimbursement of campaign expenses.
- Compared actual expenses to budgeted expenses to determine if they exceeded 110 percent of the approved budget.

To determine if the 2012 campaign's receipts and disbursements were handled in accordance with CFC regulations, we reviewed the following:

- A judgmental sample of the top 45 high dollar pledge forms, with pledges totaling \$107,358, out of a universe of 3,538 pledge forms, with pledges totaling \$647,074, from the PCFO's 2012 campaign pledge form detail schedule and compared the pledge information from the schedule to the actual pledge forms.
- Distribution checks for a sample of 10 federations and organizations, totaling \$274,197 in disbursed funds, out of a universe of 195 federations and organizations, totaling \$462,336, to verify that the appropriate amount was distributed in a timely manner. We judgmentally

selected the 10 agencies receiving the largest total disbursements which happened to include the PCFO as a federation.

- One-time disbursements to verify that the PCFO properly calculated pledge loss and disbursed 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 the guidance issued by the OCFC.
- A sample of 5 pledge notification and donor letters (from a universe of 71) to verify that the PCFO accurately notified the organizations of the amounts due to them and properly released the donor information by the date required by the Federal regulations. We judgmentally selected this sample by picking the first five organizations from our high dollar pledge form sample in which a donor indicated they wanted their contact information released.
- CFC receipts and distributions from the PCFO's campaign bank statements, campaign receipts and agency disbursements, and campaign expense support to verify whether the PCFO accurately recorded and disbursed all campaign receipts and disbursements.
- All bank statements used by the PCFO 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.

To determine if the LFCC and PCFO were in compliance with CFC regulations regarding eligibility for the 2012 campaign, 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.
- Campaign charity lists to determine if they contained all required information.
- The PCFO's responses to questions regarding the process and procedures for the application evaluation process.
- A sample of 8 local organization applications (from a universe of 49 local organization applications) to determine if the organizations met the requirements for participating in the CFC and if the LFCC sent the eligibility letters by the date required by the Federal

regulations. We judgmentally selected the top three local federations (including the PCFO) and the top five local independent organizations, based on the amount of payments from the Agency Payment Schedule, as designated in the 2012 campaign.

- The LFCC's processes and procedures for responding to appeals from organizations.
- The LFCC member listings to verify that all members were active Federal employees.

To determine if the UWLI was in compliance with the CFC regulations as a federation for the 2012 campaign, we reviewed the following:

- Data reported on the CFC Receipts Schedule, with supporting documentation, to verify that receipts were properly recorded.
- The CFC Receipts Schedule and the Federation Distribution Schedule, to determine if the percentage of receipts assigned to each organization agreed to the percentage of pledges for that organization.
- Distribution checks for a sample of 6 federation member agencies, with disbursements totaling \$42,304, out of a universe of 60, totaling \$61,492, to verify that the appropriate amount was distributed in a timely manner. We judgmentally selected the six federation members with the highest disbursements, excluding the PCFO as a federation.
- The PCFO's annual report and agreements with its member agencies to determine if member fees were reasonable and supported.

Finally, to determine if the policies and procedures related to the detection and prevention of fraud and abuse were adequate, we reviewed the PCFO's responses to our fraud and abuse questionnaire.

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.

# III. AUDIT FINDINGS AND RECOMMENDATIONS

## A. AUDIT GUIDE REVIEW

### 1. Agreed-Upon Procedures Not in Compliance with the Audit Guide Procedural

The IPA utilized by the LFCC to complete the AUP audit of the 2011 campaign did not perform its review in accordance with the requirements of the Audit Guide.

The Audit Guide contains specific procedures to be followed during the examination by the IPA with the primary objective of determining LFCC and PCFO compliance with 5 CFR 950 and OPM guidance.

We reviewed the IPA's work papers and report in detail to determine if the IPA followed the AUPs as stated in the Audit Guide and if the findings were properly reported. Our review identified two areas where the IPA did not comply with the requirements of the Audit Guide. Specifically, we identified the following issues:

The IPA did not complete all of the audit steps.

- **PCFO as a Federation, Steps 1-8** were to be completed by the IPA if the PCFO served as a federation, either in its own local campaign or in other adjacent campaigns during the 2011 CFC. The IPA did not complete these steps, stating that the PCFO did not participate as a federation. However, based on our review, we found that the PCFO served as a federation in its own local campaign and three other adjacent campaigns.
- **Receipts and Disbursements of Funds, Step 7(a-e)** required the IPA to review one-time disbursements and recalculate the 2011 pledge loss. Specifically, the AUP step instructed, "If the campaign made one-time disbursements, then perform the following procedures; otherwise, skip to #8." The IPA did not complete these steps, stating that they were not applicable. However, we found that the 2011 campaign did have one-time disbursements.

The IPA failed to report noncompliance in the following areas:

- **LFCC Processes, Step 1(a-c)** required the IPA to review the PCFO's application to administer the 2011 campaign for a signed statement by an appropriate official of the PCFO that it will administer the CFC fairly and equitably; conduct the applicant's non-CFC operations separately from the campaign operations; and that it will be

subject to the decisions and supervision of the LFCC and/or Director. The IPA's work papers documented that the PCFO's application included a signed statement from the President and Chief Executive Officer that the PCFO would administer the CFC appropriately. However, the application did not expressly include the above-mentioned required language in the statement. Furthermore, Step 1(d) required the IPA to review the PCFO's application to verify it did not include a statement that the PCFO was subject to the provisions of 5 CFR 950.403, as this has been removed from the regulations. However, the PCFO's application included a statement that it was subject to the provisions of 5 CFR 950.403.

- **LFCC Processes, Step 8** required the IPA to obtain a list of LFCC members, their agency affiliations, their contact information, and the LFCC meeting minutes for calendar years 2011 through 2013 to determine if all LFCC members were current Federal employees and were active participants at LFCC meetings. The IPA stated that it confirmed that all members listed on the meetings' minutes were Federal employees and, as of the last day of field work, all were deemed to be active employees. However, our audit work revealed that one LFCC member had not been a Federal employee since 2004.

As a result of not completing the reviews required by the AUP and failing to report instances of noncompliance, the IPA did not provide OPM's OCFC and the LFCC with the assurance that the PCFO was operating the CFC in accordance with the regulations. Additionally, based on the errors made in its review, the IPA may not have fully understood the CFC and its related regulations when completing the AUPs.

### **Recommendation 1**

We recommend that the OCFC and the LFCC ensure that the IPA fully understands the CFC and its related regulations so that it will complete the Audit Guide's AUPs correctly and completely.

### **LFCC and PCFO Response:**

The LFCC and PCFO agree that the IPA needs to fully understand the CFC and its related regulations to complete the Audit Guide's AUP correctly and completely.

### **OIG Comments:**

To help ensure that the IPA fully understands the CFC and its related regulations, we suggest that as part of their corrective action plan, the LFCC and PCFO provide the IPA with a copy

of the regulations (5 CFR 950) in effect during the scope of the audit along with copies of any relevant memoranda issued by the OCFC.

### **Recommendation 2**

We recommend that the OCFC ensures that the LFCC and the PCFO meet with the IPA prior to and during the AUP engagement to discuss the Audit Guide steps, and encourage the IPA to ask questions of the OCFC if it is unsure of how to complete any of the required procedures.

### **LFCC and PCFO Response:**

The LFCC and PCFO agree and “will meet with the IPA prior to and during the AUP engagement to make sure they understand how to complete any of the required procedures.”

### **OIG Comments:**

We want to emphasize that if the PCFO, LFCC, or IPA needs any clarification for CFC matters, they should ask for guidance from the OCFC.

## **B. BUDGET AND CAMPAIGN EXPENSES**

### **1. Unallowable Expenses**

**\$10,791**

During our review of campaign expenses, we found that the PCFO incorrectly charged \$10,791 for unallowable expenses that were either unauthorized, unreasonable, or did not relate to the 2012 CFC. The specific expenses included:

- **\$7,056 in unauthorized food and beverage expenses related to meetings and training.**

5 CFR 950.105(b) states that the PCFO is responsible for conducting “an effective and efficient campaign in a fair and even-handed manner aimed at collecting the greatest amount of charitable contributions possible.”

Additionally, OPM’s Directive Prohibiting the Approval of Costs Incurred for Meals and Entertainment, dated March 28, 2012, states that past guidance did not authorize the expenditure of funds

**The PCFO inappropriately charged the CFC food and beverage expenses that are considered unallowable by OPM.**

for meals served as a convenience to members of the LFCC, the PCFO, loaned executives, or CFC volunteers.

Our review identified three food and beverage expenses related to the September 7, 2012, kickoff and training event that amounted to \$6,705, three food and beverage expenses related to CFC meetings from July through September 2012, totaling \$204, and one food and beverage expense for \$147 related to a second kickoff event held on November 20, 2012.

The PCFO explained that it did not fully understand OPM's guidance related to meals and entertainment expenses.

- **\$3,125 in unreasonable raffle expenses.**

According to 5 CFR 950.602(b), "Raffle prizes should be modest in nature and value. Examples of appropriate raffle prizes may include opportunities for lunch with Agency Officials, agency parking spaces for a specific time period, and gifts of minimal financial value. Any special CFC fundraising event and prize or gift should be approved in advance by the Agency's ethics official."

Notwithstanding the regulation's explicit statement that raffle prizes should be modest in nature and value, raffle prizes were purchased that ranged in price from \$515 to \$99. The items included a flat panel television (\$500), notebook computer (\$500), gift cards (one \$515 card, one \$200 card, and nine \$100 cards), two MP3 players (\$165 and \$116), musical theater tickets (\$130), and an eBook reader (\$99).

The PCFO was unaware that these larger prizes would be considered unreasonable and emphasized that the LFCC considered the prize amounts to be reasonable.

- **\$438 in mileage expenses that were attributable to the 2013 campaign.**

5 CFR 950.106(b) states that "The PCFO may only recover campaign expenses from receipts collected for that campaign ...." In other words, the PCFO may only be reimbursed for its 2012 campaign expenses from the funds received for the 2012 campaign.

Our review identified 31 mileage expenses, totaling \$438, related to the 2013 campaign that were accidentally charged to the 2012 campaign. The PCFO explained that the error was due to including mileage incurred from April 1, 2013 through June 30, 2013 as part of the 2012 campaign expenses, when it should have been charged to the 2013 campaign.

- **\$172 for a Stuff-A-Bus program that was unrelated to the CFC.**

5 CFR 950.106(a) states, that “The PCFO shall recover from the gross receipts of the campaign its expenses... reflecting the actual costs of administering the local campaign.”

The UWLI purchased supplies from Target for its Stuff-A-Bus toy drive and accidentally charged the amount to the CFC as a PCFO expense. This amount should have been charged to the UWLI’s Stuff-A-Bus program since it was unrelated to the CFC.

As a result of charging the CFC these unallowable expenses, \$10,791 was not disbursed to charities participating in the 2012 campaign.

### **Recommendation 3**

We recommend the OCFC and LFCC require the PCFO to distribute \$10,791 in unallowable expenses as undesignated funds to the charities participating in the 2012 campaign and charge the 2013 campaign \$438 for mileage expenses related to the 2013 CFC.

### **LFCC and PCFO Response:**

The LFCC and PCFO agree that the PCFO will distribute \$10,791 as undesignated funds to charities participating in the 2012 campaign and charge the 2013 campaign \$438 for mileage expenses.

### **Recommendation 4**

We recommend that the OCFC and the LFCC instruct the PCFO to stop charging food and beverages to the CFC in accordance with OPM’s Directive Prohibiting the Approval of Costs Incurred for Meals and Entertainment.

### **LFCC and PCFO Response:**

The LFCC and PCFO state that “The PCFO... will no longer charge cost of food and beverages to the CFC.”

### **Recommendation 5**

We recommend that the OCFC and the LFCC ensure that the PCFO develops and implements policies and procedures to ensure that prizes and gifts are modest in nature and value in accordance with 5 CFR 950.602(b).

**LFCC and PCFO Response:**

The LFCC and PCFO state that “The PCFO has developed policies and procedures to ensure that any prize or gift is appropriate in accordance with CFC regulations.”

**OIG Comments:**

We recommend that the OCFC reviews a copy of the PCFO’s updated policies and procedures for prizes and gifts to ensure compliance with CFC regulations.

**Recommendation 6**

We recommend that the OCFC and LFCC require the PCFO to develop and implement policies and procedures to ensure that only those expenses related to the CFC are charged to the campaign and that the PCFO properly matches expenses to receipts for each campaign period.

**LFCC and PCFO Response:**

“The LFCC will ensure that the PCFO implements policies and procedures so that only expenses related to CFC are charged to each campaign.”

**2. Missing and Improper PCFO Application Statements**

**Procedural**

The LFCC selected the UWLI as the PCFO for the 2012 campaign even though the PCFO’s signed application was missing several pledge statements and contained improper language.

5 CFR 950.105(c)(2) states that any organization wishing to be selected as the PCFO must submit an application that includes “A statement signed by the applicant’s local director or equivalent pledging to:

- (i) administer the CFC fairly and equitably,
- (ii) conduct campaign operations, such as training, kick-off and other events, and fiscal operations, such as banking, auditing, reporting and distribution separate from the applicant’s non-CFC operations, and
- (iii) abide by the directions, decisions, and supervision of the LFCC and/or Director.”

Additionally, the PCFO is no longer required to include a statement that it’s subject to the provisions of 5 CFR 950.403. Federal Register Vol. 70, published November 20, 2006, removed 5 CFR 950.403 from the regulations.

We reviewed the PCFO's application to ensure that it was dated prior to the close of the announcement, signed by an appropriate official, contained all of the required language per 5 CFR 950.105(c), and did not include a statement that the PCFO was subject to the provisions of 5 CFR 950.403. Our review found that the PCFO's application language did not include the required pledge statements. Additionally, the PCFO's application included a statement that it was subject to the provisions of 5 CFR 950.403, which should have been removed.

The PCFO stated that it was unaware that specific language had to be used. It was also unaware that 5 CFR 950.403 was removed from the regulations. The LFCC did not respond to our inquiry on this issue during fieldwork.

As a result of the missing and improper application statements, the LFCC selected a PCFO that did not fully pledge its commitment to administer the campaign according to the Federal regulations. Additionally, the PCFO subjected itself to regulations that were no longer applicable.

### **Recommendation 7**

We recommend that the OCFC ensure that the LFCC understands its responsibilities in selecting a PCFO for future campaigns, to include reviewing PCFO applications for completeness and verifying that all of the required language is included and accurate.

### **LFCC and PCFO Response:**

The LFCC and PCFO agree with our finding and recommendation. The LFCC stated that it understands its responsibility in reviewing PCFO agreements, and it will verify that all of the required language is included and accurate.

## **3. Untimely PCFO Solicitation**

## **Procedural**

The LFCC began soliciting PCFO applications after the deadline set by OPM.

OPM's 2011/2012 CFC Calendar of Events lists December 15, 2011, as the deadline for the LFCC to begin soliciting PCFO applications.

We reviewed the LFCC's public notice to solicit PCFO applications for the 2012 campaign to determine if the application period was timely and open for the required number of calendar days. We found that the LFCC's solicitation for PCFOs was published on December 17, 2011, which was two calendar days after the deadline set by OPM.

The PCFO stated that the employee who places the advertisement was out with an illness that week, thereby causing the delay. The LFCC did not respond to our inquiry on this issue during fieldwork.

As a result of not soliciting PCFOs by the deadline published in the CFC Calendar of Events, potential applicants may not have read the solicitation and applied to serve as the PCFO.

### **Recommendation 8**

We recommend that the OCFC direct the LFCC to develop and implement policies and procedures for PCFO solicitations that adhere to the dates set forth in the CFC Calendar of Events.

### **LFCC and PCFO Response:**

The LFCC and PCFO state that “The PCFO will adhere to the dates set forth in the CFC Calendar of Events.”

### **OIG Comments:**

Because the LFCC and PCFO did not fully address our recommendation, the OCFC should verify that the LFCC implements policies and procedures for PCFO solicitations that adhere to the dates set forth in the CFC Calendar of Events.

## **4. Review and Authorization of Expense Reimbursement**

## **Procedural**

The LFCC did not review or authorize the PCFO’s reimbursement of actual campaign expenses.

**The PCFO reimbursed itself for campaign expenses without authorization from the LFCC.**

5 CFR 950.104(b)(17) states that it’s the responsibility of the LFCC to authorize the PCFO’s reimbursement of only those campaign expenses that are legitimate CFC costs and are adequately documented.

Additionally, 5 CFR 950.106(a) states that “The PCFO shall recover from the gross receipts of the campaign its expenses, approved by the LFCC, reflecting the actual costs of administering the local campaign.”

Finally, CFC Memorandum 2008-09 states that the approval of actual expenses by the LFCC is separate from the approval of the expense budget. “The LFCC must review actual

expenses, authorize full or partial reimbursement, and document this authorization in its meeting minutes.”

We reviewed the LFCC’s meeting minutes to determine if the LFCC reviewed and authorized the PCFO’s reimbursement of legitimate CFC expenses. Our review found that there was no record of the LFCC reviewing or authorizing the reimbursement of the PCFO’s 2012 CFC expenses.

The PCFO stated that it didn’t realize the reimbursement amounts and dates needed to be approved by the LFCC and documented in the minutes. The LFCC did not respond to our inquiry on this issue during fieldwork.

As a result of not reviewing or authorizing the PCFO’s reimbursement of actual campaign expenses, the LFCC ran the risk of unrelated expenses being charged to the organizations and federations in the campaign, thereby reducing the contributions due to them.

### **Recommendation 9**

We recommend that the OCFC direct the LFCC to implement policies and procedures to document its review of the PCFO’s actual campaign expenses, which should be supported by itemized receipts and invoices, to ensure that the expenses are allowable and applicable to the campaign.

### **LFCC and PCFO Response:**

“The LFCC will implement policies to document its review of the PCFO’s actual campaign expenses.”

### **Recommendation 10**

We recommend that the OCFC direct the LFCC to implement policies and procedures to document its authorization and approval of the PCFO’s reimbursement of actual campaign expenses.

### **LFCC and PCFO Response:**

“The LFCC will document its authorization and approval of the PCFO’s reimbursement of actual campaign expenses.”

**OIG Comments:**

Because the LFCC did not fully address our recommendation, the OCFC should verify that the LFCC implements policies and procedures to ensure that its approval of the PCFO's reimbursement of actual campaign expenses is documented in its meeting minutes.

**C. CAMPAIGN RECEIPTS AND DISBURSEMENTS**

**1. CFC Receipts Applied to the Wrong Campaigns**

**Procedural**

The PCFO incorrectly applied \$23,144 in 2013 CFC receipts to the 2012 campaign and \$346 in 2012 CFC receipts to the 2011 campaign.

5 CFR 950.901(d) states that the CFC payroll allotments will be authorized in one year terms. The term authorizations will be in effect for one full year (26, 24, or 12 pay periods depending on the allotter's pay schedule) starting with the first pay period beginning in January and ending with the last pay period that begins in December.

Additionally, CFC Memorandum 2006-5 requires PCFOs to track CFC receipts by payroll office to ensure that receipts are credited to the appropriate campaign.

We reviewed the CFC bank statements to determine if the PCFO properly tracked CFC receipts and applied them to the correct campaign. Our review found that the PCFO incorrectly applied \$23,144 in CFC receipts from the 2013 campaign to the 2012 campaign. We also found that the PCFO incorrectly applied \$346 in CFC receipts from the 2012 campaign to the 2011 campaign. As a result of both actions, the PCFO over-disbursed \$22,798 in CFC funds during the 2012 campaign.

Notwithstanding the requirements of 5 CFR 950.901(d) and CFC Memorandum 2006-5, the PCFO incorrectly used the end of January as the basis to allocate CFC receipts to the 2012 campaign. The PCFO stated that it will be more diligent in recognizing the submission timing differences used by the Federal entities, and appropriately record receipts by campaign year.

As a result of not following the directives issued by the OCFC to properly account for receipts by campaign year, the PCFO ended up over-disbursing funds to the 2012 campaign and creating a shortage in funds for other campaigns. We will not question the amounts from this finding since the funds were already disbursed.

**The PCFO over-disbursed \$22,798 in CFC funds during the 2012 campaign, creating shortages in disbursements received by participants in another campaign.**

**Recommendation 11**

We recommend that the OCFC direct the LFCC to ensure that the PCFO develops and implements policies and procedures to begin tracking CFC receipts by payroll office and to accurately account for end of the year payroll receipts.

**LFCC and PCFO Response:**

The LFCC and PCFO agree. “The LFCC will ensure that the PCFO has policies in place to accurately track CFC receipts by payroll office and accurately account for end of year payroll receipts.”

**2. Policies and Procedures for Un-Cashed Checks**

**Procedural**

The PCFO does not have written policies and procedures for un-cashed checks as required by CFC Memorandum 2006-5.

Section C of CFC Memorandum 2006-5 states that the PCFO must develop and follow policies and procedures regarding un-cashed checks. The policy should be documented and implemented after a check has gone un-cashed for six months. The procedures should include at least three documented follow-up attempts to reach the payee by phone or e-mail.

**In spite of repeated IPA warnings in its AUP audits of the campaign, the PCFO has still not developed policies and procedures for un-cashed checks as required by the regulations.**

During our review of prior audits, we found that the IPA has continuously reported the PCFO’s failure to adopt policies and procedures for un-cashed checks. Our review of the 2012 campaign confirmed that the PCFO still doesn’t have written policies and procedures for un-cashed checks. When we inquired why there was no documented policy, the PCFO responded, “Since finance hasn’t experienced a material issue with outstanding checks they did not see a need to develop a formal policy.”

By not following the guidance to develop and implement procedures for un-cashed checks, we cannot verify or assess how the PCFO handles outstanding checks. Additionally, there is a significant risk that charities whose checks are lost, misplaced, and not cashed will never receive funds due to inadequate follow-up attempts made by the PCFO, and there is the risk that funds may not be returned to the CFC.

## **Recommendation 12**

We recommend that the OCFC and the LFCC verify that the PCFO documents its policies and procedures for un-cashed checks in accordance with CFC memorandum 2006-5.

### **LFCC and PCFO Response:**

“The PCFO will develop and document its procedures for un-cashed checks in accordance with CFC memorandum 2006-5.”

### **OIG Comments:**

We would like to remind the OCFC and LFCC that this has been a finding identified by the IPA multiple times. The PCFO has failed to implement a corrective action plan over the last several years. If the PCFO continues to show disregard for the regulations governing the CFC, then the OCFC and LFCC should take appropriate steps, up to considering terminating the PCFO agreement and finding a replacement, or seeking to merge this campaign with another campaign.

### **3. LFCC Used an Incorrect Method to Establish Minimal Donations** **Procedural**

The LFCC incorrectly used net disbursement amounts instead of gross pledges to define minimal donations for charities receiving one-time disbursements.

CFC Memorandum 2008-09 states the sum of the gross pledges determines whether a donation is minimal and subject to a one-time disbursement. If campaigns were using a different method for determining the minimal donation amount for one-time disbursements, then they should have corrected their determinations starting with the 2008 campaign.

While reviewing the meeting minutes, we found that the LFCC approved one-time disbursements to organizations and federations that had a maximum disbursement amount of \$1,200 during its December 14, 2012 meeting. One-time disbursements should have been approved based on gross pledges, not disbursement amounts.

The PCFO acknowledged that net disbursements were used instead of gross pledges and stated that it will work with the LFCC to correct this error. The LFCC did not respond to our inquiry on this issue during fieldwork.

Because the LFCC used an incorrect method to establish minimal donations for one-time disbursements, we determined that the PCFO made one-time disbursements to 11 charities

that should have received funds via quarterly or monthly distributions. Additionally, these 11 organizations had a lower pledge loss withheld from their disbursements than if they received quarterly or monthly distributions.

### **Recommendation 13**

We recommend that the OCFC direct the LFCC to change its method of defining minimal donations for one-time disbursements by basing it on gross pledges instead of net disbursement amounts.

### **LFCC and PCFO Response:**

“The LFCC will define minimal donations for one-time disbursements based on gross pledges.”

## **4. Application of Pledge Loss for One-Time Disbursements Procedural**

The PCFO incorrectly applied pledge loss to the organizations and federations receiving one-time disbursements during the 2012 campaign.

According to 5 CFR 950.901(i)(3), 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.”

Additionally, CFC Memorandum 2008-9 provides guidance and detailed instructions to PCFOs regarding the calculation and application of pledge loss to gross pledges, prior to any estimated expenses being withheld.

Using the pledge and receipt totals reported by the PCFO to OPM, we calculated the average of the previous three campaigns’ pledge loss and compared our calculation to that of the PCFO to determine if its calculation was correct. Overall, we found that the PCFO miscalculated the pledge loss that was applied to the organizations and federations receiving one-time disbursements by \$1,247. The difference was due to the PCFO’s CFC software calculating pledge loss net of expenses.

The effects of applying pledge loss after expenses resulted in higher one-time disbursements and lower monthly disbursements. We are not recommending an adjustment for \$1,247 since pledge loss is an estimated amount and the disbursements already took place.

## **Recommendation 14**

We recommend that the OCFC and LFCC direct the PCFO to develop and implement policies and procedures that incorporate the directives of CFC Memorandum 2008-9 regarding the calculation and application of pledge loss to one-time disbursements.

### **LFCC and PCFO Response:**

The LFCC and PCFO agree. “The PCFO will develop procedures regarding the calculation and application of pledge loss to one-time disbursements according to the requirements of CFC Memorandum 2008-9.”

## **5. Untimely Distribution of One-Time Disbursements**

### **Procedural**

The PCFO did not make the initial disbursement for one-time disbursements by the deadline set in the CFC Calendar of Events.

The CFC Calendar of Events established a deadline of April 1, 2013, for all campaigns to begin disbursement of the 2012 campaign funds.

Additionally, CFC Memorandum 2008-9 states that one-time disbursements must be made with the first distribution for the campaign. If the campaign opts not to make one-time disbursements, then all organizations with pledges must receive disbursements with each quarterly or monthly distribution. Campaigns are not permitted to hold disbursements until the amount reaches a pre-determined “minimum check” amount.

We reviewed the PCFO’s Receipt and Disbursement Schedule and the disbursement check support to determine if the PCFO made the initial distribution by April 1, 2013. Although the PCFO issued its monthly disbursements beginning in March 2013, the one-time disbursements were not distributed until September 2013, five months after the CFC Calendar of Events deadline and six months after the initial distribution. The PCFO stated that this error occurred as a result of misunderstanding OPM’s directive.

**Some CFC charities were paid six months late due to the PCFO’s non-compliance with the Calendar of Events deadlines for initial disbursements.**

As a result of the PCFO not distributing the one-time disbursements with the first distribution in March 2013, those organizations and federations receiving minimal donations were paid six months late.

### **Recommendation 15**

We recommend that the OCFC and LFCC require the PCFO to develop and implement policies and procedures to ensure adherence to the CFC Calendar of Events deadlines and CFC Memorandum 2008-9 for the timely distribution of one-time disbursements.

### **LFCC and PCFO Response:**

The LFCC and PCFO state that “The PCFO will adhere to the CFC Calendar of Events deadlines as well as CFC Memorandum 2008-9 for one time disbursements.”

### **OIG Comments:**

Because the LFCC did not fully address our recommendation, the OCFC should verify that the PCFO implements policies and procedures to ensure adherence to the CFC Calendar of Events deadlines and CFC Memorandum 2008-9 for the timely distribution of one-time disbursements.

## **D. ELIGIBILITY**

### **1. LFCC Member Not a Federal Employee**

### **Procedural**

We identified one LFCC member listed in both the 2012 CFC Charity List and the LFCC roster who was not an active Federal employee.

5 CFR 950.101 defines the LFCC as the group of Federal officials designated by the Director to conduct the CFC in a particular community.

During our pre-audit review, we obtained a roster from the LFCC to determine if all LFCC members were active Federal employees. We then matched this LFCC roster with the list of LFCC members included in the 2012 CFC Charity List and found that both lists included one LFCC member who was a retired Federal employee since 2004. The list of LFCC members that included the non-Federal official was published and distributed across the campaign in the 2012 CFC Charity List.

Without active Federal employees serving as LFCC members, the CFC loses its Federal oversight and becomes susceptible to misguided, poor, and uninformed decisions.

### **Recommendation 16**

We recommend that the OCFC develops and implements regulations and/or memoranda which stipulate that LFCC members be comprised of active Federal employees.

#### **LFCC and PCFO Response:**

Although a response from the LFCC and PCFO was not required for this recommendation, they stated that “The NALC is the largest union of federal employees on Long Island and their President has always been invited to be part of the CFC in a supportive ad hoc role. Retirees will not be a part of the LFCC. NALC will continue to support and work with our USPS Division Chair.”

### **Recommendation 17**

We recommend that the OCFC direct the LFCC to implement policies and procedures to ensure that its members are only active Federal employees.

#### **LFCC and PCFO Response:**

“The LFCC will ensure its members are active federal employees.”

#### **OIG Comments:**

Because the LFCC did not fully address our recommendation, the OCFC should verify that the LFCC implements policies and procedures to ensure that its members are only active Federal employees.

## **E. PCFO AS A FEDERATION**

Our review of the PCFO’s activities as a federation showed that it complied with the applicable provisions of 5 CFR 950.

## **F. FRAUD AND ABUSE**

Our review of the PCFO’s policies and procedures for fraud and abuse indicated that they were sufficient to detect and deter potential fraud and abuse activities.

## **G. PROGRAM CONCERN RELATED TO LFCC PARTICIPATION**

In addition to the findings identified in this report, we are concerned with the LFCC participation in CFC matters. Specifically, we identified the following problems with the LFCC:

1. Several LFCC members, who are Federal agency heads and directors, sent replacements to attend LFCC meetings instead of attending themselves. As a result, important decisions and votes were not properly recorded during LFCC meetings.
2. The LFCC was invited to both the entrance and the exit conference, but did not respond to these invitations or attend either meeting. The LFCC's lack of participation and communication during our audit led to us relying fully on the PCFO for support.
3. The LFCC was sent multiple audit inquiries to help us identify the cause of the findings related to its non-compliance with program regulations. However, responses were not provided by the LFCC and the responsibility was passed on to the PCFO to provide a response and corrective action plan.

**LFCC members sent replacements, which may not have been aware of the LFCC's responsibilities, to attend meetings where important decisions about CFC matters were made.**

### **Recommendation 18**

As a result of these issues, the OIG (with support from the PCFO) recommends that the OCFC replace the LFCC with members who can be actively involved in the CFC. LFCC members do not need to be agency heads. Instead, those replacements (Federal employees) that the LFCC members sent to attend the LFCC meetings could replace the current LFCC. This will allow accurate record keeping and voting related to CFC issues and LFCC meetings.

### **LFCC and PCFO Response:**

“The USPS has always been the Chair for the LFCC for the Long Island Combined Federal Campaign. They have the most federal employees on Long Island 67% with the next closest federal agency having 17%. We traditionally have a Co-Chair from one of the other federal agencies. The current Co-Chair is from Veterans Affairs. Due to scheduling difficulties our current LFCC Chair was unable to attend the entrance or exit interviews for this audit. This should not be taken as a sign of any disrespect for the OPM CFC Audit process or the LFCC's role to ensure implementation of the CFC by the PCFO in accordance with all CFC regulations.”

# IV. MAJOR CONTRIBUTORS TO THIS REPORT

## Special Audits Group

██████████, Auditor

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██████████, Group Chief, ██████████

██████████, Senior Team Leader

November 4, 2014

**Deleted by OIG Not Relevant to Final Report**

Special Audits Group

Office of the Inspector General Washington, DC 20415



**Deleted by OIG Not Relevant to Final Report**

The following is a joint response from the Long Island Combined Federal Campaign and PCFO to the draft report we received detailing the results of your 2011 and 2012 audit.

Recommendation 1: We agree that the IPA needs to fully understand the CFC and its related regulations to complete the Audit Guide's AUP correctly and completely.

Recommendation 2: We agree that the LFCC and PCFO will meet with the IPA prior to and during the AUP engagement to make sure they understand how to complete any of the required procedures.

Recommendation 3: We agree that the PCFO will distribute \$10,791 as undesignated funds to charities participating in the 2012 campaign and charge the current campaign for \$438 for mileage expenses.

Recommendation 4: Already implemented. The PCFO based on CFC regulations will no longer charge cost of food and beverages to the CFC.

Recommendation 5: Already implemented. The PCFO has developed policies and procedures to ensure that any prize or gift is appropriate in accordance with CFC regulations.

Recommendation 6: We agree that the LFCC will ensure that the PCFO implements policies and procedures that only expenses related to CFC are charged to each campaign.

Recommendation 7: We agree the LFCC does understand its responsibility in reviewing PCFO agreements and will confirm completeness and verify that all the required language is included and accurate.

Recommendations 8: Already implemented. The PCFO will adhere to the dates set forth in the CFC Calendar of Events.

Recommendation 9: We agree the LFCC will implement policies to document its review of the PCFO's actual campaign expenses.

Recommendation 10: We agree that the LFCC will document its authorization and approval of the PCFO's reimbursement of actual campaign expenses.

Recommendation 11: We agree the LFCC will ensure the PCFO has policies in place to accurately track CFC receipts by payroll office and accurately account for end of year payroll receipts.

Recommendation 12: We agree that the PCFO will develop and document its procedures for uncashed checks in accordance with CFC memorandum 2006-5.

Recommendation 13: Already implemented. The LFCC will define minimal donations for one-time disbursements to be based on gross pledges.

Recommendation 14: We agree the PCFO will develop procedures regarding the calculation and application of pledge loss to one-time disbursements according to the directive of CFC Memorandum 2008-9.

Recommendation 15: Already implemented. The PCFO will adhere to the CFC Calendar of Events deadlines as well as CFC Memorandum 2008-9 for one time disbursements.

Recommendation 16: Already implemented. The NALC is the largest union of federal employees on Long Island and their President has always been invited to be part of the CFC in a supportive ad hoc role. Retirees will not be a part of the LFCC. NALC will continue to support and work with our USPS Division Chair.

Recommendation 17: Already implemented. The LFCC will ensure its members are active federal employees.

The USPS has always been the Chair for the LFCC for the Long Island Combined Federal Campaign. They have the most federal employees on Long Island 67% with the next closest federal agency having 17%. We traditionally have a Co-Chair from one of the other federal agencies. The current Co-Chair is from Veterans Affairs. Due to scheduling difficulties our current LFCC Chair was unable to attend the entrance or exit interviews for this audit. This should not be taken as a sign of any disrespect for the OPM CFC Audit process or the LFCC's role to ensure implementation of the CFC by the PCFO in accordance with all CFC regulations.

Submitted By:

[REDACTED]

[REDACTED]

LFCC Chair  
District Manager/Executive in Charge United States Postal Service

*Theresa A. Regnante*

Theresa A. Regnante, President & CEO  
United Way of Long Island



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