

ELIGIBILITY

Our review of CHC's federation and member agency eligibility showed that it complied with the applicable provisions of 5 CFR 950.

GOVERNANCE STRUCTURE

Our review of CHC's governance structure showed that it complied with the applicable provisions of 5 CFR 950.

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I. INTRODUCTION AND BACKGROUND

INTRODUCTION

This report details the findings and conclusions resulting from our audit of the 2008 Combined Federal Campaign (CFC) activities of the Community Health Charities (CHC) Federation. 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. In 2008, it consisted of 242 separate local campaign organizations located throughout the United States, including Puerto Rico, the Virgin Islands, and foreign assignments. The Combined Federal Campaign Operations (CFCO) at OPM has the responsibility for management of the CFC. This includes publishing regulations, memoranda, and other forms of guidance to Federal offices and private organizations to ensure that all campaign objectives are achieved.

The CFCs 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, electing 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 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; and consulting with federated groups on the operation of the local campaign.

National federations are responsible for administering applications for their membership, acting as a fiscal agent for their members, and making sure that donor designations are honored. Organizations are prohibited from using consultants in their CFC operations to perform policy-making or decision-making functions. To participate in the CFC, a federation consents to allow the Director of OPM complete access to its CFC records, as well as its members' CFC records. A federation must have 15 or more member agencies that meet eligibility requirements contained in 5 CFR 950.202 and 950.203. After obtaining status as a national federation, it must re-establish eligibility each year and certify and/or demonstrate that its members meet all eligibility requirements expressed in 950.301(e). The Director may elect to review and accept or reject the national federation's eligibility certifications made on behalf of its members. The Director may request additional information from the federation at his discretion.

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 LFCC. Management of the PCFO is also responsible for establishing and maintaining a system of internal controls.

All findings from our previous audit of CHC (Report Number 3A-CF-00-01-085, dated October 15, 2001), covering the 1998 and 1999 campaign years, have been satisfactorily resolved.

The initial results of our audit were discussed with CHC officials during an exit conference held on June 11, 2010. A draft report was provided to CHC on October 29, 2010 for review and comment. CHC'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 our audit was to determine if CHC was in compliance with 5 CFR 950, including the responsibilities of national and international federations. Our audit objectives for the 2008 campaign year were:

Administrative Expenses

- Determine if CHC has agreements in place with the member agencies concerning the amount of dues/fees/expenses to be charged.
- Determine if CHC charges its member agencies any additional dues/fees/expenses other than that prescribed by the agency agreement.
- Verify that dues/fees/expenses are accurately reported.

Distribution of Funds

- Determine if CHC's procedures for processing and tracking receipts are reasonable.
- Determine if CFC's disbursement policy is reasonable and that the initial distributions to member agencies were timely for the 2008 campaign.
- Determine if CHC's deposited amounts agree to the check amounts in the audited PCFO records.
- Determine if CHC is maintaining CFC financial records and interest-bearing bank accounts separate from other internal organization records and bank accounts.
- Determine if checks written to agencies agree with the amounts on CHC's distribution list and that all checks were timely and distributed in accordance with the regulations.
- Determine if the total funds received by CHC were properly disbursed and all campaign funds were accounted for.

Eligibility

- Determine the adequacy of CHC's review of applications for membership in the Federation and compliance with the eligibility regulations (5 CFC 950.301, 202, and 203).
- Determine if CHC's member application review process complies with the requirements contained in 5 CFR 950.301, 202, and 203.
- Determine the extent to which CHC requires membership applications to comply with the requirements in the regulations.

Governance Structure

- Determine compliance with 5 CFR 950.203 by reviewing CHC's bylaws, board of directors appointment and termination dates, board minutes, ethics policy, conflict of interest statements, and the most recent IRS 990 form.

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 year 2008. CHC served as a national CFC Federation for the 2008 campaign, during which it received donations totaling \$21,047,090 for its member agencies. The audit fieldwork was conducted at CHC's offices from May 24 through 28, 2010, and June 10 through 11, 2010. Additional audit work was completed at our Washington, D.C. and Cranberry Township, Pennsylvania offices.

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 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.

To accomplish our objectives for administrative expenses we judgmentally selected eight CHC state affiliates for review. Specifically, we selected the following:

- Three state affiliates (Illinois, New York and Virginia) which had the largest number of member agencies located in that state;
- Three state affiliates (Tennessee, Georgia, and Texas) which had the member agencies with the highest designations; and
- The two remaining Washington, D.C. metropolitan area affiliates not previously selected (Maryland and Washington, D.C.).

The role played by the state affiliates in the overall structure of this national federation includes:

- Helping to publicize and promote the participation of the Member health charities;
- Helping to establish eligibility for participation in the Campaign;
- Working with the participating charities to develop their local strategies for the Campaign; and
- Helping to effect and track the disbursements to the Member health charities.

Consequently, we reviewed the disbursements from CHC to their state affiliates and from the state affiliates to their member agencies to determine if the administrative expenses withheld

were in accordance with the affiliate's agreements with CHC and if the expenses were properly reported in the CHC Annual Report.

In regards to our objectives concerning CHC's distribution of funds, we accomplished the following:

- We reviewed CHC's policies and procedures for receiving, recording, and distributing funds, and
- We reviewed CHC's documentation supporting campaign expenses, cash receipts, and cash disbursements.

To determine if CHC was in compliance with the regulations regarding member eligibility we reviewed CHC's eligibility policies and procedures and its application review materials to verify that all regulation requirements were included in its review.

To complete our governance structure objectives, we reviewed CHC's By-Laws, Mission Statement, Articles of Incorporation, membership requirements, Code of Ethics, Board of Director's minutes and IRS form 990 to determine if CHC was in compliance with the regulation's public accountability standards (5 CFR 950.203).

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. ADMINISTRATIVE EXPENSES

1. Expenses Understated in Annual Report

Procedural

The administrative expenses withheld by CHC and its local affiliates from the distributions to its member agencies greatly exceeded the administrative expense percentages reported in CHC's Annual Report.

5 CFR 950.301 (e) (2) (iii) states that the annual report must include an accurate description of the federation's membership dues and/or service charges received by the federation from the charitable organizations participating as members. The information must clearly present the amounts raised, the sources of contributions, the cost of fundraising, and how costs are recovered from donations.

CHC's 2008 Annual Report indicated that operating expenses recovered from amounts distributed to its member agencies typically averaged less than four percent of the amounts distributed. However, our review of eight local affiliates' distributions to the member agencies found that an average operating expense of 16.42 percent was withheld from the amounts sent to the member agencies.

As part of our review, we requested and received distribution schedules for the eight local affiliates to determine the amount of operating expenses withheld from CFC monies distributed to CHC's member agencies. As part of the distribution process, CHC does not send monies received directly to the member agencies. Instead monies received are sent to its 36 local affiliates, of which 2.25 percent is returned to CHC from each affiliate to cover its operating expenses. CHC then allows its local affiliates to withhold up to 13.75 percent additionally (not to exceed a total of 16 percent) from the amount it sends to each local affiliate before the monies are sent to the member agencies.

The CFC regulations permit the organizing and operating entity which incurs expenses in relation to operating the campaign to reimburse itself for those reasonable expenses from the campaign funds received from donors prior to their distribution to member charities. CHC is that organizing and operating entity for the purpose of their member charities and is, by regulation, entitled to reimbursement for its expenses incurred for the 2008 CFC campaign. Additionally, CHC's local affiliates work for the member charities to help publicize and promote the participation of the member charities. However, the 2009 CHC Annual Report (the report that encompasses the 2008 campaign) did not reflect the total expense percentage withheld by both CHC at the national level and by its local affiliates, and therefore did not report accurately the administrative expenses withheld in full.

As a result of not accurately reporting the operating expenses withheld from the amounts distributed to its member agencies, potential donors might be misled to believe more of their donated dollars will reach the desired charity.

CHC's Comments:

CHC disagrees with the finding. However, it stated that it understands the point made in the finding and the need to address the issue. CHC states that it is willing to amend its Annual Reports, to both reflect the administrative expense of the national organization and of the Affiliates.

OIG Comments:

We accept CHC's response and corrective action. We request that the CFCO ensure that Annual Reports for the current and future campaigns accurately report the total expense percentage withheld.

Recommendation 1

We recommend that the CFCO follow-up with CHC to ensure that its annual reports for current and future campaigns properly reflect the administrative expense of the national organization and of its local affiliates.

B. DISTRIBUTION OF FUNDS

1. CHC Local Affiliates Overcharged Administrative Fees \$142,852

CHC did not have proper controls in place to ensure that its local affiliates did not withhold more administrative fees than its agreements with the affiliates allow. As a result, the disbursements to the member agencies of the CHC CFC federation were reduced by \$142,852.

CHC's agreements with its local affiliates state that withholdings for operating charges may not exceed 16 percent of funds received by the affiliates from CHC.

Federations, such as CHC, are responsible for administering the applications for their membership, acting as fiscal agents for their members, and making sure donor designations are honored. CHC distributes CFC receipts to its local affiliates for further distribution to the member agencies headquartered in that state. The local affiliates are permitted to deduct operating charges from the CFC receipts prior to sending the funds to the member charities. Additionally, the local affiliate must pay CHC 2.25 percent of the campaign receipts per a revenue sharing agreement with CHC. Because the withholding limitation of 16 percent is inclusive of the 2.25 percent paid to CHC, the state affiliates are left with a maximum of 13.75 percent for their operating charges.

We reviewed the disbursements and withholdings for eight local affiliates to determine if the amount of operating charges withheld by the local affiliate exceeded 16 percent. We found that three of the eight local affiliates (National Capital Area, Georgia, and Texas) did not comply with the limitation set by CHC. As a result, CHC member agencies participating in the 2008 Combined Federal Campaign were overcharged a total of \$142,852 in operating charges.

CHC's Comments:

CHC disagrees with the finding and the recommendation that \$142,852 be disbursed to the member agencies of the 2008 campaign. CHC states that the member charities of the local affiliates in question, operating through their Boards of Directors, authorized their affiliates to use those additional amounts to develop their capacity for fundraising, tracking, and disbursing CFC and other funding for the member charities.

OIG Comments:

We disagree with CHC's opinion that because the respective local affiliate Boards of Directors recommended additional spending for charitable expenses that those additional expenses withheld from the disbursement of CFC funds was allowable. CHC's agreements between it and its local affiliates state that in no case should an affiliate deduct more than 16 percent from the CFC funds received from CHC. This language clearly establishes a threshold for administrative fees of 16 percent per affiliate, which was exceeded by the affiliates in question.

Additionally, Recommendation four of the draft audit report requested that CHC review the administrative fees charged by its remaining state affiliates and required the affiliates to reimburse member agencies all fees retained that exceeded the 16 percent of operating charges set in its affiliate membership agreements. However to date, CHC has not provided any evidence to support that it performed this analysis. Therefore, we request that CHC provide that information to the CFCO for review, and if any other local affiliates withheld more than 16 percent, that those funds be returned to the CFC member agencies as well.

Recommendation 2

We recommend that the CFCO direct CHC to properly disburse \$142,852 to the member agencies of the 2008 campaign.

Recommendation 3

We recommend that the CFCO direct CHC to implement procedures to ensure that its local affiliates comply with the administrative fee limitations set forth in its CHC affiliate membership agreement.

Recommendation 4

We recommend that the CFCO require CHC to review the administrative fees charged by its remaining state affiliates and require the affiliates to reimburse member agencies all fees retained that exceed the 16 percent operating charge set in its CHC affiliate membership agreements.

C. ELIGIBILITY

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D. GOVERNANCE STRUCTURE

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IV. MAJOR CONTRIBUTORS TO THIS REPORT

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