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Final Audit Report

Subject:

AUDIT OF THE 2004 AND 2005 GREATER LOS ANGELES AREA COMBINED FEDERAL CAMPAIGNS LOS ANGELES, CALIFORNIA

Report No. **3A-CF-00-07-037**

Date: 02/18/2009

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

AUDIT REPORT

AUDIT OF THE 2004 AND 2005 GREATER LOS ANGELES AREA COMBINED FEDERAL CAMPAIGNS LOS ANGELES, CALIFORNIA

Report No. 3A-CF-00-07-037 **Date: 02/18/2009**

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 2004 AND 2005 GREATER LOS ANGELES AREA COMBINED FEDERAL CAMPAIGNS LOS ANGELES, CALIFORNIA

Report No. 3A-CF-00-07-037 **Date: 02/18/2009**

The Office of the Inspector General completed an audit of the Greater Los Angeles Area Combined Federal Campaigns (CFC) for 2004 and 2005. The United Way of Greater Los Angeles, located in Los Angeles, California, served as the Principal Combined Fund Organization (PCFO) during both campaigns. The primary objective was to determine if the Greater Los Angeles 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 10 instances of non-compliance with the regulations governing the CFC.

AUDIT GUIDE REVIEW

- **Agreed-Upon Procedures Not in Compliance**

  The Independent Public Accountant's audit of the 2004 campaign did not comply with all aspects of the 2006 Audit Guide.

Financial Statements Not Provided

Financial Statements required to be distributed by the 2006 Audit Guide were not provided by the PCFO and LFCC.

BUDGET AND CAMPAIGN EXPENSES

- **Improper Matching of Campaign Expenses**

  The PCFO incorrectly charged the 2005 campaign for $36,504 in CFC expenses related to the 2004 campaign.

- **Campaign Expense Reimbursement Not Authorized**

  The PCFO reimbursed itself for 2005 campaign expenses without receiving authorization from the LFCC as required by the Federal regulations.

- **Untimely PCFO Selection**

  The LFCC did not select the PCFO by March 15, in accordance with 5 CFR 950.801(a)(3), for the 2005 campaign year.

CASH RECEIPTS AND DISBURSEMENTS

- **Uncashed CFC Distribution Checks**

  The PCFO did not redistribute or reissue 16 CFC distribution checks, totaling $910, to charities as required by the Office of Combined Federal Campaign Operations.

- **Inaccurate Release of Donor Information**

  The PCFO allowed personal donor information to be released to participating agencies against the wishes of the donor.

- **Cutoff Procedures**

  The PCFO incorrectly used January 31st as a cutoff date for incoming payroll receipts.

LOCAL ELIGIBILITY

- **Agency Application Evaluation Process**

  The local agency and federation application screening procedures applied by the PCFO and LFCC do not account for all requirements outlined in the Federal regulations.

PCFO AS A FEDERATION

- **Campaign Receipts Not Distributed**

  The PCFO did not distribute $4,025 received from other participating CFCs to the member agencies for the 2005 campaign.

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I. INTRODUCTION AND BACKGROUND

Introduction

This report details the findings, conclusions, and recommendations resulting from our audit of the Greater Los Angeles Area Combined Federal Campaigns (CFC) for 2004 and 2005. 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 at Federal installations throughout the world. It consists of 299 separate local campaign organizations located throughout the United States, including Puerto Rico, the Virgin Islands, and Foreign assignments. The Office of Combined Federal Campaign Operations (OCFCO) at OPM has the responsibility for management of the CFC. This includes publishing regulations, memorandums, and other forms of guidance to Federal officials and private organizations to ensure that all campaign objectives are achieved.

CFC's are conducted by a Local Federal Coordinating Committee (LFCC) and administered by a Principal Combined Fund Organization (PCFO). The LFCC is responsible for organizing the local CFC, determining 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 (CFR) 950, the regulations governing CFC operations, set 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 recommendations from our previous audit of the Greater Los Angeles Area CFC (Report No. 3A-CF-00-01-081, dated August 8, 2001) covering campaign years 1998 and 1999 have been satisfactorily resolved.

The initial results of our audit were discussed with PCFO and LFCC officials during an exit conference held on June 8, 2007. A draft report was provided to the PCFO and LFCC on June 23, 2008 for review and comment. The PCFO and LFCC's response to the draft report was considered in preparation of this final report and is included as an Appendix.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The primary purpose of the audit was to determine if the Greater Los Angeles Area CFC was in compliance with 5 CFR 950, including the activities of both the PCFO and LFCC. The specific objectives for the 2005 campaign were:

Local 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 2004 campaign was:

Audit Guide Review

- To determine if the Independent Public Accountant (IPA) completed the Agreed-Upon Procedures (AUP) as outlined in the 2006 CFC Audit Guide for Campaigns with pledges $1 Million and Greater (Audit Guide) for the 2004 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 2004 and 2005. The United Way of Greater Los Angeles, located in Los Angeles, California, served as the PCFO during both campaigns. The audit fieldwork was conducted at the United Way of Greater Los Angeles Area office in California from June 4 through June 8, 2007. Additional audit work was completed at our Washington, D.C. office.

The Greater Los Angeles Area CFC received campaign pledges, collected campaign receipts, and incurred campaign administrative expenses for the 2004 and 2005 campaigns as shown below:

Campaign Year	Campaign Pledges	Campaign Receipts	Administrative Expenses
2004	$3,879,059	$3,735,676	$402,860
2005	$3,957,451	$3,730,440	$411,190

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 out 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 management procedures and controls to the extent necessary to achieve our audit objectives. We relied primarily on substantive testing rather than tests of internal controls. The audit included such tests of the accounting records and such other auditing procedures as we considered necessary to determine compliance with 5 CFR 950 and CFC Memorandums.

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

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

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

- Reviewed the PCFO application and completed the PCFO application checklist.
- Reviewed a copy of the public notice to prospective PCFO's, and LFCC meeting minutes related to the selection of the PCFO.
- Traced and reconciled amounts on the PCFO's Schedule of Actual Expenses to the PCFO's general ledger.
- Reviewed supporting documentation for a judgmental sample of actual expenses from 28 expense accounts.

- Reviewed the LFCC meeting minutes and verified if the LFCC authorized the PCFO's reimbursement of campaign expenses.
- Compared the budgeted expenses to actual expenses and determined if the actual expenses exceeded 110 percent of the approved budget.

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

- Selected and reviewed a judgmental sample of 25 out of 17,916 pledge cards (selected the top 10 pledge cards by high dollar, every 100th pledge card [10 total], and the first 5 pledge cards identified with two or more charities designated) and compared them to the Pledge Card Report prepared by the PCFO
- Reviewed cancelled distribution checks to verify that the appropriate amount was distributed in a timely manner.
- Reviewed the PCFO's most recent listing of outstanding checks to verify that the PCFO was following its policy for such checks.
- Reviewed 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.
- Reviewed and compared the Form 1417 provided by the PCFO to the Form 1417 obtained from the Office of Combined Federal Campaign Operations (OCFCO) to identify any material differences.
- Verified the monthly disbursements on the Distribution of Funds Schedule to amounts reported on the PCFO's Campaign Receipts and Disbursements Schedule.
- Reviewed all bank statements used by the PCFO for the 2005 campaign to verify that the PCFO was properly accounting for and distributing funds.
- Reviewed the PCFO's Campaign Receipts and Disbursements Schedule to verify that the PCFO properly calculated allocation rates for undesignated funds.
- Reviewed the PCFO's cutoff procedures and bank statements to verify that funds were allocated to the appropriate campaign year.
- Reviewed one-time payments to verify that the PCFO properly calculated pledge loss and disbursed the funds in accordance with the ceiling amount established by the LFCC.

To determine if the PCFO acted appropriately as a federation, we reviewed federation receipts and disbursements and the contract with its member agencies.

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

Finally, to accomplish our objective for the Audit Guide Review, we reviewed the CFC Audit Guide (for campaigns with pledges greater than $1 million) and determined the type of audit to be completed by the IPA for the 2004 campaign. We also completed the AUP checklist to verify that the IPA completed and documented the AUP steps.

III. AUDIT FINDINGS AND RECOMMENDATIONS

The PCFO and LFCC administered the 2004 and 2005 Greater Los Angeles Area CFCs in compliance with all applicable CFC regulations with the exception of the following areas.

A. AUDIT GUIDE REVIEW

1. Agreed-Upon Procedures Not in Compliance

We found that the PCFO's IPA audit of the 2004 campaign did not comply with all aspects of the 2006 CFC Audit Guide AUPs.

The Audit Guide states that the IPA performs "specified agreed-upon procedures (AUP) over the PCFO's compliance with CFC regulations and OPM guidance, and the effectiveness of the PCFO's internal controls over its compliance as of the end of the Fall 2004 campaign period ...." Chapter III of the Audit Guide outlines the specific AUP steps for the IPA to perform.

We reviewed the IPA working papers related to the 2004 campaign's AUPs to determine if the IPA complied with the Audit Guide's requirements. We identified two AUP steps where the IPA did not fully comply with the requirements of the Audit Guide. Specifically we noted the following:

a. We identified one instance where the AUP step was completed, however, the IPA did not report a finding identified in its working papers.
   - PCFO Budget and Administrative Expenses, step six, required the IPA to report all instances where the PCFO was not properly matching campaign receipts and expenses. Our review found that the IPA noted in its work papers that some expenses were included in the incorrect campaign year. However, these instances were not reported by the IPA. Discussions with the PCFO's Comptroller verified that certain expenses (specifically the auditing fees) were not matched to the correct campaign. For instance, the IPA expenses for the 2003 campaign would not be known or billed until July 2005. The PCFO Comptroller did not understand that this was not allowed, but stated that the expense would be properly matched in the future.

b. We also found one instance where the documentation maintained by the IPA was not sufficient for us to determine if the AUP step was completed correctly.
   - PCFO Budget and Administrative Expenses, step five, required the IPA to report all instances where the PCFO's actual expenses did not agree to the general ledger. Our review showed that the IPA performed adjusting entries to balance the general ledger. However, there was no documentation included to support these adjustments and, consequently, we could not verify the validity of these entries.

If the IPA does not complete the AUPs as stated in the Audit Guide or we are unable to verify the IPA's work, the OCFCO will not be able to rely on the IPA's work and, therefore, the ability to monitor the activities of the campaign is impaired.

PCFO and LFCC's Comments:

The PCFO and LFCC agree with the finding and state that they will work very closely with the IPA to ensure it is meeting all CFC audit guidelines when conducting audits for the campaign.

Recommendation 1

We recommend that the OCFCO ensure that the LFCC works with the PCFO and their IPA to implement procedures so that the AUPs, as outlined in the CFC Audit Guide, are properly completed.

2. **Financial Statements Not Provided**

The PCFO was unable to provide support to show that it provided its organizational-wide statements to the LFCC as required by the Audit Guide. In addition, the LFCC did not submit the required audited financial statements to OPM as required by the Audit Guide.

The Audit Guide requires that the PCFO provide its most recent organizational-wide financial statements, "as of and for the fiscal year ended, that are prepared in accordance with GAAP and audited by an IPA in accordance with GAAS. The PCFO must provide the financial statements and the related audit report to the LFCC no later than August 1, 2006."

Per our review and discussion with the PCFO, the PCFO did not provide and was unable to locate documentation to support that the organizational-wide financial statements were provided to the LFCC.

In addition, the Audit Guide states that the LFCC must provide the required financial statements and reports "to OPM no later than September 15, 2006."

Per the OCFCO, the LFCC did not provide any of the reports or financial statements required by the 2006 CFC Audit Guide to OPM.

As a result of the PCFO and LFCC not complying with the requirements of the Audit Guide, the OCFCO can not provide reasonable assurance that the CFC Campaign is being operated in an effective and efficient manner.

PCFO and LFCC's Comments:

The PCFO and LFCC contend that the organizational-wide financial statements were submitted to the LFCC by the required deadline.

The PCFO and LFCC do agree that the audit reports and financial statements were not provided to OPM and state that the PCFO will "work directly with the LFCC to provide OPM with the financial statements by the deadline."

OIG Response:

The PCFO and LFCC did not provide any documentation with their response to support its position that the organizational-wide financial statements were provided to the LFCC by the deadline requirements. Therefore, we can not remove this issue from our report.

Recommendation 2

We recommend that the OCFCO ensure that the PCFO and LFCC understand the reporting requirements of the CFC Audit Guide so that the audit reports and financial statements are provided to the appropriate parties by the CFC Audit Guide's deadlines.

B. BUDGET AND CAMPAIGN EXPENSES

1. Improper Matching of Campaign Expenses $36,504

The PCFO charged the 2005 CFC Campaign for expenses that were not related to that campaign year, resulting in $36,504 in inappropriate administrative charges.

5 CFR 950.106 (a) states, "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."

5 CFR 950.106 (b) states, "The PCFO may only recover campaign expenses from receipts collected for that campaign year. Expenses incurred preparing for and conducting the CFC cannot be recovered from receipts collected in the previous year's campaign. The PCFO may absorb the costs associated with conducting the campaign from its own funds and be reimbursed, or obtain a commercial loan to pay for costs associated with conducting the campaign."

Based on our review of the 2005 campaign expenses, we identified campaign expenses totaling $36,504 that are related to a previous campaign. Specifically, we identified the following:

- The PCFO charged the 2005 campaign for audit expenses related to the 2004 CFC Campaign. This resulted in an administrative expense overcharge to the 2005 campaign of $32,888.

- The PCFO charged the 2005 campaign for donor recognition awards related to the 2004 campaign, resulting in a $3,616 overcharge.

By charging expenses to the incorrect campaign year, the PCFO is not matching campaign expense with the receipts for that campaign year as required by 5 CFR 950.106(a). In addition, using current year campaign receipts to pay for prior year campaign expenses is prohibited by 5 CFR 950.106 (b). As a result, $36,504 was not properly distributed to member agencies of the 2005 campaign.

PCFO and LFCC's Comments:

The PCFO and LFCC do not agree with the finding. They stated that all expenses were "posted to the appropriate year and reflected in the budgets provided to the LFCC and OPM at the end of every campaign year." They also pointed out that "There have been no instances of overcharging any campaign year for related expenses to that particular campaign year."

OIG Response:

The PCFO and LFCC did not provide any additional documentation supporting their disagreement with the finding. Their response also did not fully address the issue that the expenses were charged to the incorrect campaign year. We have provided additional information below on each expense questioned to further illustrate the problem:

Auditing Expenses

Any audits, either of financial statements or AUPs, completed during the 2005 campaign had to be related to a prior campaign. Our review determined that the costs charged to the 2005 campaign were incurred during the campaign; therefore, it is our opinion that these costs could not be related to or chargeable to the 2005 campaign. Per discussion with the OCFCO, this has been a topic of discussion with PCFOs during accounting training sessions at CFC workshops in the past.

Donor Recognition Awards

The 2005 campaign was charged for personalized awards in March 2005 (first month of the 2005 campaign). These awards were purchased by the PCFO before the donation solicitation period for the 2005 campaign; therefore, it is highly unlikely they were for the 2005 campaign.

Recommendation 3

We recommend that the OCFCO direct the PCFO to reimburse the agencies of the 2005 campaign $36,504 for inappropriate administrative charges.

Recommendation 4

We recommend that the OCFCO require the LFCC to ensure that the PCFO properly match expenses to the appropriate campaign year when reimbursing itself for the actual costs of administering the local campaign in future years, as required by 5 CFR 950.106 (a).

2. Campaign Expense Reimbursement Not Authorized

The PCFO reimbursed itself for 2005 campaign expenses without receiving the authorization of the LFCC as required by the Federal regulations. As a result, the PCFO could have been reimbursed for expenses not related to CFC activities and/or reimbursed itself more than the maximum allowed amount (110 percent or the approved budget amount).

5 CFR 950.104 (b) (17) states that it is the responsibility of the LFCC to authorize the PCFO reimbursement of only campaign expenses that are related to the CFC and are adequately documented; and to ensure that the total reimbursed expenses do not exceed the approved campaign budget by more than 10 percent.

5 CFR 950.106 (a) states that the PCFO may only recover campaign expenses approved by the LFCC which reflect actual costs of administering the campaign.

To determine if the LFCC properly approved the PCFO reimbursement we reviewed the LFCC meeting minutes and did not identify anything in those minutes authorizing the reimbursement of CFC expenses to the PCFO.

As a result of not reviewing and approving the PCFO's campaign expense reimbursement, the LFCC is at risk of non-CFC related expenses being charged to the campaign. Inclusion of non-CFC related expenses will reduce disbursements to member charities.

PCFO and LFCC's Comments:

The PCFO and LFCC state that the PCFO receives "a letter at the beginning of each campaign year where it states that expenses will be allocated as approved in the budget." The PCFO took this letter as written approval of the expenses.

They also indicate that they will "add more documentation to the budget approval process" and "will incorporate the approval of the budget in the LFCC meeting agenda and record it in the minutes."

OIG Response:

Based on our review of the PCFO and LFCC's response to the finding, it is apparent that they do not understand the expense approval process and their related responsibilities.

In their response, they have associated the approval of campaign expenses with the approval of the campaign budget. This thinking is incorrect. Although the end of one campaign period and the beginning of the next occur almost simultaneously, the approval of campaign expenses and the approval of the campaign budget are not related.

Campaign expenses that the PCFO wishes to have reimbursed should be specifically requested by the PCFO and approved by the LFCC per the Federal regulations. The approval of expenses should also include a review by the LFCC to determine if the expenses were actual, necessary, reasonable, and related to the campaign year in question. The approval should occur prior to the actual expense reimbursement and be documented by the LFCC.

Recommendation 5

We recommend that the OCFCO direct the LFCC to review and document all PCFO reimbursement requests, verify that the requests are properly supported, and authorize only those expenses which are actual, necessary, reasonable, and related to the campaign year in question.

Recommendation 6

We recommend that the OCFCO ensure that the LFCC understands its responsibilities related to campaign expense reimbursement stipulated by 5 CFR 950.104 (b) (17).

3. **Untimely PCFO Selection**

The LFCC did not select the PCFO by the date set forth in the Federal regulations for the 2005 campaign year.

5 CFR 950.801(a) (3) states that the "Local Federal Coordinating Committees must select a PCFO no later than March 15."

Based on our review of the LFCC's PCFO selection notification letter, we determined that the LFCC's decision to select its PCFO for the 2005 campaign year was made March 31, 2005, 16 days after the date required by the Federal regulations.

Although the regulation requiring the March 15th due date for PCFO selection changed in 2006 to state that the due date is now determined by OPM on a yearly basis, it is important that the LFCC adhere to due dates set by OPM. Not adhering to due dates, especially the selection of the PCFO, can set the entire campaign behind from the start and result in delays in other CFC-related activities.

PCFO and LFCC's Comments:

The PCFO and LFCC agree with the finding and state that they will work together to ensure that the PCFO selection documentation is processed by the LFCC in a more timely manner to meet the deadline requirements.

Recommendation 7

We recommend that the OCFCO ensure that the LFCC understand its responsibilities and select the PCFO by the date required per 5 CFR 950.801(a) (3).

C. CASH RECEIPTS AND DISBURSEMENTS

1. Uncashed CFC Distribution Checks $910

The PCFO did not redistribute 16 uncashed CFC distribution checks for the 2005 CFC Campaign, totaling $910, to charities as required by the OCFCO.

CFC Memorandum 2006-5 requires the PCFO to develop and follow policies and procedures regarding uncashed checks. It also states that this policy should be documented and implemented after a check has gone uncashed for six months and that the procedures include at least three documented follow-up attempts to reach the payee by phone and e-mail. If it is determined that the payee is no longer active, the funds must be distributed among the remaining organizations for that campaign as undesignated funds.

Our review identified 16 CFC distribution checks, totaling $910, that were outstanding six months or more and have not been redistributed to the remaining charities as undesignated funds.

The PCFOs procedures related to outstanding checks did not encompass all of the procedures required by the OCFCO in CFC Memorandum 2006-5.

PCFO and LFCC's Comments:

The PCFO and LFCC agree with the finding and state that there is now a formal process of following up on uncashed checks. They also state that additional steps are being taken to further improve the uncashed checks process.

Recommendation 8

We recommend that the OCFCO ensure that the uncashed check procedures implemented by the PCFO fully meet the requirements outlined in CFC Memorandum 2006-5.

Recommendation 9

We recommend that the OCFCO direct the PCFO to redistribute $910 to the charities of the 2005 CFC campaign as undesignated funds.

2. Inaccurate Release of Donor Information

The PCFO allowed personally identifiable information of individual donors to be released to participating agencies against their wishes.

5 CFR 950.105(d)(6) states that the PCFO is responsible for honoring the request of donors who indicate on the pledge card that their names not be released to the organization(s) that they designate.

We selected and reviewed a judgmental sample of 25 out of 17,916 pledge cards for the 2005 campaign. All pledge cards, with the exception of the following, were processed in accordance with the PCFO's pledge card procedures and 5 CFR 950.

During our review of the pledge cards selected, we noted three errors where personally identifiable information was released to participating agencies against the wishes of the donor, indicating a weakness in the controls over pledge card processing:

- In two instances, the donor only designated their name to be released; however, the PCFO released their home address and e-mail address as well.
- In one instance, the donor did not want any information released; however, the PCFO released their name and e-mail address.

Releasing names and addresses of donors against their wishes can subject those donors to unwanted solicitation from member agencies and make their participation in a subsequent CFC campaign less likely.

PCFO and LFCC's Comments:

The PCFO and LFCC agree with the finding and stated that they will modify their training and verification procedures to ensure compliance with the donor intent.

Recommendation 10

We recommend that the OCFCO and LFCC ensure that the PCFO has implemented procedures safeguarding personally identifiable information of donors and to only release the information that the donors agree to.

3. Cutoff Procedures

The PCFO incorrectly used January 31st as a cut-off date for CFC receipts instead of tracking the receipts by payroll office, as recommended by the OCFCO.

CFC Memorandum 2003-11 states, "Any checks received on or before January 31 without supporting documentation should be applied to the prior campaign. Checks received after January 31 should be applied to the current campaign."

Additionally, as a result of improvements made in the reporting of information by payroll offices, the OCFCO issued CFC Memorandum 2006-5 to update its recommendation. Memorandum 2006-5 states that "For the 2005 campaign, all campaigns should be tracking receipts by payroll office. Discrepancies should be brought to the attention of the payroll office and/or OCFCO as soon as possible so that resolutions can be made in a timely manner."

For the 2005 CFC campaign, the PCFO used January 31st as a cutoff date regardless of the documentation provided with payroll disbursements. The PCFO stated that it used this date because the payroll offices do not provide the documentation needed to determine the appropriate campaign year to which the distributions belong.

As a result of not tracking each receipt by payroll office as recommended by the OCFCO, the PCFO runs the risk of misapplying incoming CFC payroll receipts to the wrong campaign year.

PCFO and LFCC's Comments:

The PCFO and LFCC agree with the finding and state that they will work with the payroll offices and the OCFCO to specifically identify which campaign year contributions are intended for.

Recommendation 11

We recommend that the OCFCO ensure that the procedures implemented by the PCFO are adequate to properly allocate CFC receipts to the correct campaign year.

D. LOCAL ELIGIBILITY

1. Agency Application Evaluation Process

The local agency and federation application screening procedures applied by the PCFO and LFCC do not account for all requirements outlined in the Federal regulations. As a result, there is a risk that local agencies and/or federations that do not meet requirements outlined in the regulations could be approved for inclusion in the CFC Campaign.

5 CFR 950.104(b) (3) states that the LFCC is responsible for "Determining the eligibility of local organizations that apply to participate in the local campaign." 5 CFR 950 sections 202, 203, and 204 detail the approval requirements for federations and local agencies.

We reviewed the LFCC evaluation process for approving 2005 local agency and federation applications. Using the Federal regulations, we compiled a checklist that encompasses all of the agency and federation requirements in 5 CFR 950. Our review consisted of comparing the LFCC application checklists used in the local agency/federation approval process to the OIG checklists.

Our comparison of the local agency checklists showed that the LFCC's screening checklist did not account for 25 areas specified in 5 CFR 950. A similar comparison of the local federation checklists identified 36 areas of discrepancy.

Consequently, the checklists used by the LFCC to review applications did not encompass all of the requirements necessary for an agency to be listed in the campaign brochure. For local agencies to be listed, the eligibility requirements set forth in 5 CFR 950.204 must be met. For local federations to be included, the eligibility requirements set forth in 5 CFR 950.303 must be met. We provided the PCFO with a copy of the OIG checklist and suggested that the LFCC use it, or a similar checklist, in the future to document the eligibility review process.

As a result of the local agency and local federation eligibility checklists not including all of the information necessary for determining eligibility, there is a risk that ineligible agencies and/or federations could be included in the CFC campaign.

PCFO and LFCC's Comments:

The PCFO and LFCC agree with the finding and stated that steps are now being implemented to amend their eligibility checklist to include all criteria outlined in the OIG checklist.

Recommendation 12

We recommend that the OCFCO ensure that the procedures implemented by the LFCC in its local agency and federation approval process take all applicable Federal regulations (5 CFR sections 202, 203, 204, and 303) into account.

E. PCFO AS A FEDERATION

1. Campaign Receipts Not Distributed $4,025

The PCFO did not distribute $4,025 received from other participating CFCs to the member agencies for the 2005 campaign.

5 CFR 950.302 (e) states that "Each Federation, as fiscal agent for its member organizations, must ensure that Federal employee designations are honored in that each member organization receives its proportionate share of receipts based on the results of each individual campaign."

During our review of the PCFO's operations as a federation, we identified funds received from the Orange County and Ventura County CFC that were not disbursed to the PCFO's member agencies. We informed the PCFO of this error and it verified that this was an oversight on its part. The PCFO stated that "in complying with the CFC audit currently taking place, we have learned the CFC funds received from another United Way and applied to our General Fund were actually to have been partially distributed amongst certain agencies in our area."

We have verified that the $4,025 was properly distributed to the member agencies as of June 8, 2007. As a result of this error, the agencies in question did not receive funds in a timely manner and Federal employee designations were not properly distributed.

PCFO and LFCC's Comments:

The PCFO and LFCC agree with the finding and state that procedures will be implemented to prevent this situation from recurring in the future.

Recommendation 13

We recommend that the OCFCO ensure that the procedures implemented by the PCFO properly account for and distribute all CFC funds received to its member agencies.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

[redacted] Auditor-In-Charge

[redacted] Group Chief [redacted]

[redacted] Senior Team Leader

Office of Management

Jill Henderson, Deputy Assistant Inspector General for Management

Internal Audits Group

[redacted] Group Chief

United Way, Inc.
Corrective Action Plan
(dated August 1, 2008 and sent via e-mail)

A. AGREED UPON PROCEDURES

Finding 1: Agreed Upon Procedures not in Compliance

The Principal Combined Fund Organization's PCFO's Independent Public Accountant (IPA) audit of the 2004 campaign did not comply with all aspects of the January 2006 Audit Guide for campaigns $1 Million and greater Agreed Upon Procedures (AUP).

The Audit Guide states that the IPA performs "specified agreed-upon procedures (AUP) over the PCFO's compliance with CFC regulations and OPM guidance, and the effectiveness of the PCFO's internal controls over its compliance as of the end of the Fall 2004 campaign period..." Chapter III of the Audit Guide outlines the specific AUP steps for the IPA to perform.

We reviewed the IPA working papers related to the 2004 campaign AUPs to determine if the IPA complied with the Audit Guide requirements. We identified two AUP steps where the IPA did not fully comply with the requirements of the Audit Guide. Specifically we noted the following:

a) We identified one instance where the AUP step was completed, however, the IPA did not report a finding identified in its working papers.

- PCFO Budget and Administrative Expenses step six required the IPA to report all instances where the PCFO is not properly matching campaign receipts and expenses. Our review found that the IPA noted in its work papers that some expenses were included in the incorrect campaign year. However, these instances were not reported by the IPA. Discussions with the PCFO's Comptroller verified that certain expenses (specifically the auditing fees) were not matched to the correct campaign. For instance, the IPA expenses for the 2003 campaign would not be known or billed until July 2005. The PCFO Comptroller did not understand that this wasn't allowed, but stated that the expense would be properly matched in the future.

b) We also found that in one instance where the documentation maintained by the IPA was not sufficient for us to determine if the AUP step was completed correctly.

- PCFO Budget and Administrative Expenses step five required the IPA to report all instances where the PCFO's actual expenses did not agree to the general ledger. However, there was no documentation included to support these adjustments and, consequently, we could not verify the validity of these entries. If the IPA does not complete the AUP as stated in the Audit Guide or we are unable to verify the IPA's work and, therefore, the ability of the OCFC to monitor the activities of the campaign is impaired.

UWGLA Response: We will work very closely with our IPA to ensure that we are meeting all CFC Audit guidelines when conducting our audits.

Finding 2: <u>Financial Statements Not Provided</u>

The PCFO also was unable to provide support to show that it provided its organizational-wide statements to the LFCC as required by the Audit guide. In addition, the LFCC did not submit the required audited financial statements to OPM as required by the Audit Guide.

The Audit Guide requires that "the PCFO provide its most recent organizational-wide financial statements, as of and for the fiscal year ended, that are prepared in accordance with GAAP and audited by an IPA in accordance with GAAS. The PCFO must provide the financial statements and the related audit reports to the LFCC no later than August 1, 2006.

Per our review and discussion with the PCFO, the PCFO did not provide and was unable to locate documentation to support that the organizational-wide financial statements were provided to the LFCC.

The Audit Guide states that the LFCC provide the required financial statements and reports "to OPM no later than September 15, 2006."

Per the OCFC, the LFCC did not provide any of the reports or financial statements required by the 2006 CFC Audit Guide to OPM.

As a result of the PCFO and LFCC not complying with the requirements of the Audit Guide, the OCFC can not provide reasonable assurance that the CFC Campaign is being operated in an effective and efficient manner.

UWGLA Response: UWGLA submitted financial statements by the deadline requirements. In the future, we will work directly with the LFCC to provide OPM with the financial statements by the deadline.

B. BUDGET AND CAMPAIGN EXPENSES

Finding 1: Campaign Expense Reimbursement Not Authorized

The PCFO reimbursed itself for 2005 campaign expenses without receiving the authorization of the LFCC as required by the Federal regulations. As a result, the PCFO could have been reimbursed for expenses not related to Combined Federal Campaign (CFC) activities and/or reimbursed itself more that the maximum allowed amount (110 percent of the approved budget amount).

5 CFR 950.104 (b)(17) states that it is the responsibility of the LFCC to authorize the PCFO reimbursement of only campaign expenses related to the CFC and are adequately documented; and to ensure that the total reimbursed expenses do not exceed the approved campaign budget by more than 10 percent.

5 CFR 950.106 (a) states that the PCFO may only recover campaign expenses approved by the LFCC which reflect actual costs of administering the campaign.

To determine if the LFCC properly approved the PCFO reimbursement we reviews the LFCC meeting minutes and did not identify anything in those minutes authorizing the reimbursements.

Reimbursements that are not reviewed and authorized by the LFCC could result in non-CFC related charges reducing the disbursement amounts to member agencies.

UWGLA Response: We receive a letter at the beginning of each campaign year where it states that expenses will be allocated as approved in the budget. This letter was taken as written approval. To add more documentation to the budget approval process, we will incorporate the approval of the budget in the LFCC meeting agenda and record it in the minutes.

Finding 2: Untimely PCFO Selection

The LFCC did not select the PCFO by the date set forth in the Federal regulations for the 2005 Campaign year.

5 CFR 950.801(a)(3) states that the "Local Federal Coordinating Committee must select a PCFO no later than March 15."

Based on our review of the LFCC's PCFO selection notification letter we determined that the LFCC's decision to select its PCFO for the 2005 campaign year was made March 31, 2005, 16 days after the date required by the Federal regulations.

Although the regulation requiring the March 15th due date for selection changed in 2006 to state that the due date is now determined by OPM on a yearly basis, it is important that the LFCC adhere to due dates set by OPM. Not adhering to due dates, especially selection of the PCFO, can set the entire campaign behind from the start and result in delays in other CFC related activities.

UWGLA Response: We will continue to work with the LFCC to ensure that the documentation provided is processed by them in a timely manner to meet the deadline.

Finding 3: Improper Matching of Campaign Expense Reimbursement

The PCFO charged the 2005 CFC Campaign for expenses that were not related to that campaign year resulting in $36,504 in inappropriate administrative charges.

5 CFR 950.104 (b)(17) states, "The PCFO shall recover from the gross receipts of the campaign its expenses, approved by the LFCC, reflecting the actual costs of administering the campaign" from receipts collected for that campaign year.

5 CFR 950.106 (a) states, "The PCFO may only recover campaign expenses from receipts collected for that campaign year. Expenses incurred preparing for and conducting the CFC cannot be recovered from receipts collected in the previous year's campaign. The PCFO may absorb the costs associated with conducting the campaign from its own funds and be reimbursed, or obtain a commercial loan to pay for costs associated with conducting the campaign>"

Based on our review of the 2005 campaign expenses, we identified campaign expenses totaling $36,504 that are related to a previous campaign. Specifically, we identified the following:

- THE PCFO charged the 2005 campaign for audit expenses related to the 2004 CFC Campaign. This resulted in an administrative expense overcharge to the 2005 campaign of 32,888.
- The PFCO charged the 2005 campaign for donor recognition awards related to the 2004 campaign, resulting in an $3,616 overcharge to the 2005 campaign.

By charging expenses to the incorrect campaign year, the PCFO is not matching campaign expense with the receipts for that campaign year as required by 5 CFR 950.106(a). In addition, using prior year campaign receipts to pay for current year campaign expenses is prohibited by 5 CFR 950.106(b). As a result, $36,504 was not properly distributed to member agencies of the 2005 campaign.

UWGLA Response: All expenses are posted to the appropriate year and reflected in the budgets provided to the LFCC & OPM at the end of every campaign year. There have been no instances of overcharging any campaign year for related expenses to that particular campaign year.

C. <u>CASH RECEIPTS AND DISBURSEMENTS</u>

Finding 1: <u>Uncashed CFC Distribution of Checks</u> **<u>$910</u>**

The PCFO failed to redistribute or reissue 16 CFC distribution checks, totaling $910, to charities as required by the OCFC.

CFC Memorandum 2006-5 requires the PCFO to develop and follow policies and procedures regarding un-cashed checks. It also states that this policy should be documented and implemented after a check has gone un-cashed for six-months and that the procedures include at least three documented follow-up attempts to reach the payee by phone and e-mail. If it is determined that the payee is no longer active, the funds must be distributed among the remaining organizations for that campaign as undesignated funds.

Our review identified 16 FC distribution checks, totaling $910, outstanding six months or more that have not been redistributed to the remaining charities as undesignated funds.

The PCFOs procedures related to outstanding checks did not encompass all of the procedures required by the OCFC in CFC Memorandum 2006-5.

Adherence to the procedures outlined in the CFC Memorandum is imperative to ensure that CFC disbursement checks outstanding six months or more are not inadvertently escheated to the state and not redistributed to other charities as undesignated funds.

UWGLA Response: Staff has a formal process of following up on un-cashed checks. To better document the process, staff will document in writing all communication with agencies regarding un-cashed

checks. Any voided check goes back to the CFC Campaign as undesignated funds to be redistributed to agencies.

Finding 2: <u>Inaccurate Release of Donor Information</u>

The PCFO allowed personally identifiable information of individual donors to be released to participating agencies against their wishes. 5 CFR 950.105(d)(6) states that the PCFO is responsible for honoring the request of donors who indicate on the pledge card that their names not be released to the organization(s) that they designate.

We reviewed a sample of 25 out of 17,934 pledge cards for the 2005 campaign. All pledge cards, with the exception of the following, were processed in accordance with the PCFO's pledge card procedures and 5 CFR 950.

During our review of the pledge cards selected, we noted three errors where personally identifiable information was released to participating agencies against the wishes of the donor, indicating a weakness in the controls over pledge card processing:

- In two instances, the donor only designated their name to be released; however, the PCFO released their home address and E-mail address as well.

- In two instances, the donor did not want any information released; however, the PCFO released their name and E-mail address.

Releasing names and addresses of donors against their wishes can subject those donors to unwanted solicitation from member agencies and make their participation in a subsequent CFC campaign unlikely.

UWGLA Response: We concur with findings and will modify training and verification procedures to ensure compliance with donor intent.

Finding 3: <u>Cutoff Procedures</u>

The PCFO incorrectly uses January 31st as a cut-off date for CFC receipts instead of tracking the receipts by payroll office as recommended by the OCFC.

CFC Memorandum 2004-11 states, "...Any checks received on or before January 31 without supporting documentation should be applied to the prior campaign. Checks received after January 31 should be applied to the current campaign."

Additionally, a result of improvements made in the reporting of information by payroll offices, the OCFC issued CFC Memorandum 2006-5 to update its recommendation. Memorandum 2006-5 states that, "For the 2005 campaign, all campaigns should be tracking receipts by payroll office. Discrepancies should be brought to the attention of the payroll office and/or OCFC as soon as possible so that resolutions can be made in a timely manner."

For the 2005 CFC campaign, the PCFO used January 31st as a cutoff date regardless of the documentation provided with payroll disbursements. The PCFO stated that it used this date because the payroll offices do not provide the documentation needed to determine the appropriate campaign year to which the distribution belong.

As a result of not tracking each receipt by payroll office as recommendation by the OCFC, the PCFO runs the risk of misapplying incoming CFC payroll receipts to the wrong campaign year.

UWGLA Response: As previously stated, UWGLA did not receive complete information with payroll disbursements and was unable to confirm periods for certain disbursements. On a go-forward basis, UWGLA will obtain a list of the payroll offices for CFC and create a master list of contact data to enable a quick resolution of any campaign attribution issues. Further, UWGLA will escalate any unresolved issues to OCFO in a timely matter to alert them to any resulting issues and to ensure proper allocation of funds received.

D. LOCAL ELIGIBILITY

Finding 1: Agency Application Evaluation Process

The local agency and federation application screening procedures applied by the PCFO and LFCC do not account for all requirements outlined in the Federal Regulations. As a result, there is a risk that local agencies and/or federations that do not meet requirements outlined in the regulations could be approved for inclusion in the CFC Campaign.

5 CFR 950.104(b)(3) states that the LFCC is responsible for "Determining the eligibility of local organizations that apply to participate in the local campaign." 5 CFR 950 sections 202, 203, and 204 detail the approval requirements for federations and local agencies.

We reviewed the LFCC evaluation process for approving 2005 local agency applications. Using the Federal regulations, we compiled a checklist that encompasses all of the agency and Federation requirements in 5 CFR 950. Our review consisted of comparing the

LFCC application checklists used in the agency/federation approval process to the OIG checklist.

Our comparison of the local agency checklists showed that the LFCC's screening checklist did not account for 25 areas specified in 5 CFR 950. A similar comparison of the local federation checklists identified 36 areas of discrepancy.

Consequently, the checklists used by the LFCC to review the applications did not encompass all of the requirements necessary for an agency to be listed in the campaign brochure. For local agencies to be listed, the eligibility requirements se forth in 5 CFR 950.204 must be met. For local federations to be included, the eligibility requirements set forth in 5 CFR 950.303 must be met. We provided the PCFO (via e-mail on 7/13/07) with a copy of the OIG checklist and suggested that the LFCC use it, or a similar checklist, in the future to document the eligible review process.

As a result of the local agency and local federation eligibility checklists not including all of the information necessary for determining eligibility, there is a risk that ineligible agencies and/or federations could be included in the CFC campaign.

UWGLA Response: We will amend our eligibility checklist to include all criteria as identified in the OIG checklist.

D. PCFO AS A FEDERATION

Finding 1: Campaign Receipts not Distributed — $4,025

The PCFO did not distribute $4,025 received from other participating CFC's to the member agencies for the 2005 campaign.

5 CFR 950.302 (e) states that "each Federation, as fiscal agent for its member organizations, must ensure that Federal employee designations are honored in that each member organization receives its proportionate share of receipts based on the results of each individual campaign."

During our review of PCFO's operations as a Federation, we identified funds received from the Orange County Combined Federal Campaigns that were not disbursed to the PCFO's member agencies. We informed the PCFO of this error and it verified that this was an oversight on it's part. The PCFO stated that "in complying with the CFC audit currently taking place, we have learned the CFC funds received from another United Way and applied to our General Fund was actually to have been partially distributed amongst certain agencies in our area." We have verified that the $4,025 was properly distributed to the member agencies as of June 8, 2007.

As a result of this error, the agencies in question did not receive funds in a timely manner and Federal employee designations were not properly distributed.

UWGLA Response: We will implement a new procedure to prevent this situation from recurring. Staff will verify the checks received without supporting documentation and will document the process to ensure that the check received is coded to the correct account.