



Highlights of [GAO-06-887](#), a report to the Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

### Why GAO Did This Study

The continued success of the Combined Federal Campaign (CFC), which is administered by the Office of Personnel Management (OPM), is predicated on donor confidence that each donation reaches a legitimate charitable organization.

The Ways and Means Committee's review of tax-exempt entities has led to concerns that charities listed in CFC are failing to remit payroll and other taxes to IRS as required by law. Specifically, GAO was asked to determine whether and to what extent (1) charities listed in the 2005 CFC have unpaid payroll and other taxes; (2) selected charities, their directors, or senior officers are abusing the federal tax system; and (3) OPM screens charities for federal tax problems before allowing them to be listed with CFC.

### What GAO Recommends

To ensure donor confidence and improve control over participation in CFC, GAO recommends that OPM take the following two actions:

- create and maintain a comprehensive database of all local, national, and international charities that participate in CFC; and
- verify with IRS the tax-exempt status of all charities applying to be included in the CFC.

OPM concurred with both of our recommendations and stated it had taken or will take actions to address these recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-06-887](http://www.gao.gov/cgi-bin/getrpt?GAO-06-887).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory D. Kutz at (202) 512-7455 or [kutzg@gao.gov](mailto:kutzg@gao.gov).

## TAX DEBT

# Some Combined Federal Campaign Charities Owe Payroll and Other Federal Taxes

### What GAO Found

More than 1,280 CFC charities, nearly 6 percent of charities in the OPM-administered 2005 campaign, had tax debts totaling almost \$36 million as of September 30, 2005. While the majority of this debt represented payroll taxes, penalties, and interest dating back as far as 1988, the debt also included amounts from annual reporting penalties, excise taxes, exempt organization business income taxes, unemployment taxes, and other types of taxes and penalties. Most of the 1,280 tax delinquent charities (79 percent) owed less than \$10,000. Further, at least 170 of the charities with tax debt received about \$1.6 billion in federal grants in 2005.

All 15 of the charities that we selected for detailed audit and investigation had abusive and potentially criminal activity related to the federal tax system. Specifically, rather than fulfill their role as trustees of this money and forward it to the IRS, the directors and senior officers diverted the money for charity-related expenses, including their own salaries, some of which were in excess of \$100,000. Although exempt from federal income tax, charities as employers are required to forward payroll taxes withheld from their employees' wages to the IRS. Willful failure to remit payroll taxes is a felony under U.S. law. We referred all 15 of these charities to the IRS for consideration of additional collection or criminal investigation.

#### Examples of Abusive and Potentially Criminal Activity by CFC Charities

Type of charity	Tax debt	Charity activity
Museum	Over \$100,000	Repeatedly underpaid payroll taxes. Federal and local liens were filed against the charity. The IRS assessed a penalty against personal assets of the director who admitted to underpaying payroll taxes to fund operations.
Health service provider	Over \$400,000	Repeatedly remitted payroll taxes late while accruing interest and penalties. Executives were paid through a contractor that received \$3 million from the charity. Received more than \$2 million in federal grants from the Department of Health and Human Services.
Mental health clinic	Over \$1.5 million	Repeatedly failed to remit or to remit timely payroll taxes for the last 15 years. Director diverted payroll tax to pay his and employee salaries.

Source: GAO's analysis of IRS, public, and other records.

OPM does not screen CFC charities for federal tax problems or independently validate with the IRS whether the charity is truly a tax-exempt organization. Federal law prevents OPM from accessing taxpayer information required to screen for tax delinquency. Consequently, OPM was unaware of the charities that owed federal tax debt and cannot provide assurance that the more than 22,000 participating charities are tax-exempt organizations. To demonstrate the vulnerability of this process, GAO created a fictitious charity and successfully applied to three large local campaigns.