



Highlights of [GAO-06-755T](#), a testimony before the Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

The Office of Personnel Management (OPM) administers the annual Combined Federal Campaign (CFC), which gave more than 22,000 charities access to the federal workplace, helping those in need by collecting more than \$250 million in donations during the 2005 campaign. The success of the campaign is predicated on each donor's confidence in a system that ensures donations reach charitable organizations that have met the CFC's specific eligibility requirements and are legitimate charities. For example, to be eligible, each charity must have formally received from the Internal Revenue Service (IRS) tax-exemption designation under 501(c)(3) of the Internal Revenue Code.

The Subcommittee on Oversight is reviewing tax-exempt status entities and asked GAO to determine whether charitable organizations participating in the CFC were remitting their payroll and other taxes to the IRS as required by law. Specifically, GAO was asked to investigate and 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 the CFC.

www.gao.gov/cgi-bin/getrpt?GAO-06-755T.

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.

TAX DEBT

Some Combined Federal Campaign Charities Owe Payroll and Other Federal Taxes

What GAO Found

More than 1,280 CFC charities, or about 6 percent of charities in the OPM-administered 2005 campaign, had tax debts totaling approximately \$36 million as of September 30, 2005. The majority of delinquent charities owed less than \$10,000. Approximately \$28 million of this debt represented payroll taxes, penalties, and interest dating back as far as 1988. The remaining \$8 million represented annual reporting penalties, excise taxes, exempt organization business income, unemployment taxes, and other types of taxes and penalties during this same period. Further, at least 170 of the charities with tax debt received about \$1.6 billion in federal grants in 2005.

GAO investigated 15 CFC charities, selected primarily for the amount and age of their outstanding tax debt. All 15 charities engaged in abusive and potentially criminal activity related to the federal tax system. Although exempt from certain taxes (e.g., federal income tax), these charities had not forwarded payroll taxes withheld from their employees along with other taxes to the IRS. Willful failure to remit payroll taxes is a felony under U.S. law. However, 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. 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, although information on exempt status is available to the public. 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.