U.S. OFFICE OF PERSONNEL MANAGEMENT
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OFFICE OF AUDITS

Final Audit Report

Subject:

AUDIT OF THE 2007 AND 2008 COMBINED FEDERAL CAMPAIGNS OF ISLAND COUNTY OAK HARBOR, WASHINGTON

Report No. **3A-CF-00-10-037**

Date: March 4, 2011

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

AUDIT REPORT

AUDIT OF THE 2007 AND 2008 COMBINED FEDERAL CAMPAIGNS OF ISLAND COUNTY OAK HARBOR, WASHINGTON

Report No. 3A-CF-00-10-037 **Date:** March 4, 2011

Michael R. Esser
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for Audits

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

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EXECUTIVE SUMMARY

AUDIT OF THE 2007 AND 2008 COMBINED FEDERAL CAMPAIGNS OF ISLAND COUNTY OAK HARBOR, WASHINGTON

Report No. 3A-CF-00-10-037 **Date:** March 4, 2011

The Office of the Inspector General has completed an audit of the 2007 and 2008 Combined Federal Campaigns (CFC) of Island County. The United Way of Island County, located in Oak Harbor, Washington, served as the Principal Combined Fund Organization (PCFO) during both campaigns. Our main objective was to determine if the CFC of Island County 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 eight instances of non-compliance with the regulations (5 CFR 950) governing the CFC.

The following findings represent the results of our audit work as of the date of this report.

AUDIT GUIDE REVIEW

- **Agreed-Upon Procedures Not in Compliance with the Audit Guide** **Procedural**

  The Independent Public Accountant did not complete all of the agreed-upon procedures in accordance with the Audit Guide.

BUDGET AND CAMPAIGN EXPENSES

- **LFCC Approval of Campaign Expense Reimbursement** **Procedural**

  The PCFO did not submit its expenses related to the 2008 campaign to the LFCC for approval prior to reimbursement.

- **Unallowable Expense Charged to the 2008 Campaign** **$955**

  The PCFO charged an unallowable expense, totaling $955, to the 2008 campaign.

- **Insufficient and Undocumented Allocation Methods** **Procedural**

  The allocation methods used by the PCFO to allocate costs to the 2008 campaign were insufficient and were not supported by adequate documentation. Additionally, we identified a number of transactions which used incorrect allocation percentages or which the PCFO could not reconcile to the amount recorded in the general ledger.

- **Campaign Expenses Charged to the Wrong Campaign Year** **$13,420**

  The PCFO did not properly match its expenses to campaign receipts and charged the 2008 campaign $13,420 for expenses related to the 2006 and 2007 campaigns.

- **PCFO Application Missing Required Language** **Procedural**

  The United Way of Island County's application to serve as PCFO did not include all of the specific language required by the regulations.

CAMPAIGN RECEIPTS AND DISBURSEMENTS

- **Pledge Card Errors** **Procedural**

  The PCFO incorrectly input 13 pledge cards causing it to not follow the CFC donor's wishes.

- **LFCC Approval of One-Time Disbursements** **Procedural**

  The PCFO made one-time disbursements for the 2008 campaign before obtaining approval from the LFCC.

ELIGIBILITY

Our review of the campaign's eligibility processes showed that it complied with the applicable provisions of 5 CFR 950.

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.

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I. INTRODUCTION AND BACKGROUND

INTRODUCTION

This report details the findings and conclusions resulting from our audit of the Combined Federal Campaigns (CFC) of Island County for 2007 and 2008. 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, determining the 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 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.

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

This represents our first audit of the CFC of Island County. The initial results of our audit were discussed with PCFO and LFCC officials during an exit conference held on June 3, 2010. A draft report was provided to the PCFO and the LFCC on September 7, 2010, for review and comment. The PCFO's responses to the draft report were considered in preparation of this final report and are included as an Appendix.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The primary purpose of our audit was to determine if the CFC of Island County was in compliance with 5 CFR 950, including the activities of both the PCFO and the LFCC. Our audit objective for the 2007 campaign was:

Audit Guide Review

- To determine if the IPA completed the Agreed-Upon Procedures (AUP) as outlined in the CFC Audit Guide (For Campaigns with Pledges between $150,000 and $999,999).

Additionally, our specific audit objectives for the 2008 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 expenses charged to the campaign were actual, reasonable, allocated properly, approved by the LFCC, and did not exceed 110 percent of the approved budget.

Campaign Receipts and Disbursements

- To determine if the pledge card format was correct and if the pledge card report agrees with the actual pledge cards.
- To determine if incoming pledge monies were allocated to the proper campaign year and that 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; if the charitable organization application process was open for the required 30-day period; if the applications were appropriately reviewed, evaluated, and approved; if the applicants were notified of the eligibility decisions timely; and if the appeals process for denied applications was followed.

PCFO as a Federation

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

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 2007 and 2008. The United Way of Island County, located in Oak Harbor, Washington, served as the PCFO during both campaigns. The audit fieldwork was conducted at the offices of the PCFO from May 28 through June 3, 2010. Additional audit work was completed at our Washington, D.C. office.

The CFC of Island County received campaign pledges, collected campaign receipts, and incurred campaign administrative expenses for the 2007 and 2008 campaigns as shown below:

Campaign Year	Total Pledges	Total Receipts	Administrative Expenses
2007	$318,648	$291,713	$59,038
2008	$284,081	$242,887	$61,387

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 and CFC Memorandums.

To accomplish our objective for the Audit Guide Review, we reviewed the CFC Audit Guide (for campaigns with pledges between $150,000 and $999,999) and completed the AUP checklist to verify that the IPA completed and documented the AUP steps.

In regard to our objectives concerning the 2008 campaign's budget and campaign expenses, we accomplished the following:

- Reviewed the PCFO's application to verify if 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 timely.

- Traced and reconciled amounts on the PCFO's Schedule of Actual Expenses to the PCFO's general ledger.
- Reviewed the PCFO's budgeted expenses, the LFCC's approval of the budget, and matched a sample of actual expenses to supporting documentation. We judgmentally selected a sample of 44 expense transactions, totaling $18,475, for review from a universe of 215 expense transactions, totaling $62,136[1]. Specifically, we judgmentally selected 20 allocated expenses (totaling $4,391), 2 IPA audit related expenses (totaling $5,775) and 22 direct expense transactions (totaling $8,309).
- 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 actual expenses exceeded 110 percent of the approved budget.

To determine if the 2008 campaign's receipts and disbursements were handled in accordance with CFC regulations, we reviewed the following:

- A judgmental sample of 45 pledge cards (totaling $38,387, from a universe of 1,633 pledge cards, totaling $284,081) from the 2008 PCFO's Donor Pledge Campaign Report and compared the pledge information from the report to the actual pledge cards. Specifically, we judgmentally selected the top 10 pledge cards with the highest amounts pledged (totaling $21,902); every 25th pledge card, by card number, for a total of 25 pledge cards (totaling $6,871); the top 4 cash donation pledge cards (totaling $4,714); and 6 pledge cards of interest based on prior CFC audit experience (totaling $4,900).
- Cancelled distribution checks to verify that the appropriate amount was distributed in a timely manner.
- One-time disbursements to verify that the PCFO properly calculated pledge loss and disbursed the 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 its policy for such checks.
- The Pledge Notification Letters to verify that the PCFO notified the CFC agencies of the designated and undesignated amounts due them by the date required in the regulations.
- The donor list letters sent by the PCFO to organizations to verify the letters properly notify the organization of the donors who wish to be recognized.
- 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 2008 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 year.
- The General Designation Options and Undesignated Funds Spreadsheet and the Allocations and Disbursements Spreadsheet to verify disbursements were accurate and proportionate to the PCFO's allocation rates.

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[1] The expense universe total is greater than the actual expenses charged due to adjustments made by the PCFO following its reimbursement.

To determine if the LFCC and PCFO were in compliance with CFC regulations in regards to eligibility for the 2008 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.
- 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.

Finally, to determine if the PCFO was in compliance with the CFC regulations as a federation (United Way of Island County) for the 2008 campaign, we reviewed the following:

- Data reported on the CFC Receipts Schedule with supporting documentation to verify whether receipts were properly recorded.
- The CFC Distribution Schedule to ensure that United Way of Island County did not disburse any funds to member agencies not participating in the CFC.
- The United Way of Island County's agreements with its member agencies to determine if the fees were reasonable and supported.

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. AUPs Not in Compliance with the Audit Guide — Procedural

The IPA utilized by the PCFO and the LFCC to complete the AUP audit, required by the OPM CFCO, did not properly complete 8 of the 20 steps/procedures for the 2007 campaign in accordance with the Audit Guide. Additionally, the IPA incorrectly used the Audit Guide steps for the 2006 campaign (included in the 2008 Audit Guide) instead of those for the 2007 campaign (included in the 2009 Audit Guide) to perform and document its review.

Chapter III of the Audit Guide, prepared by the CFCO, "contains specific procedures for four requisite elements to be followed during the examination by the IPA."

We reviewed the IPA's working papers to ensure that it properly completed and documented its review of the PCFO's operations of the 2007 campaign. During our review we determined that the IPA copied the "Chapter III IPA Agreed-Upon Procedures" from the Audit Guide and used that as its audit program. Upon review of these procedures, however, it was determined that the IPA incorrectly used the previous year's Audit Guide and steps as its audit program. Although close inspection of the audit steps included in the 2008 and 2009 Audit Guides did not identify material differences, the correct Audit Guide should have been used to conduct the audit.

Additionally, we identified 8 out of the 20 audit steps/procedures where the IPA did not properly complete the audit step. Specifically, we found that the IPA did not complete:

- **Pledge Form Tracking System Step 1**: The step required the IPA to select a representative sample of 25 pledge forms (cards) from the 2007 campaign. The pledge forms selected should have represented all types of donations, including cash, designated funds and undesignated funds. Fifteen should have been selected from the pledge tracking system and traced to the pledge forms. Ten should have been selected from the pledge forms and traced to the pledge tracking system. We found that the IPA only included 10 samples from the pledge tracking system and no pledge cards as support. As a result we could not verify if the IPA performed this review appropriately. Furthermore, the 10 samples included in the work papers did not include any that represented undesignated funds donations. As a result, the IPA did not select the sample per the instructions of the Audit Guide's AUP.

- **Pledge Form Tracking System Step 2**: The step required the IPA to "Trace and determine that the following information from each pledge form agrees to the PCFO's automated system or pledge records." The specific information to be traced included donor name, each charity code number and amount donated, total amount donated, and the donor's choice to release information. We found that for 9 of the 10 samples included in the IPA's working papers there was no indication that any of this information was traced as required. As a result, we could not determine if the IPA properly completed this step.

- **Pledge Form Tracking System Step 3**: The step required the IPA to review the PCFO's spreadsheet used to track and analyze payroll office receipts to determine if it included the following:

  1. The amount of payroll deductions by payroll office;
  2. The estimated amount due from each payroll office by pay period;
  3. A comparison of the estimated amount due from each payroll office to the actual amount received; and
  4. An identification of instances where actual amounts received from a payroll office exceeded the estimated amount.

  The IPA determined that the PCFO's "campaign software does not track the estimated receipts by pay center, so the PCFO does not compare the actual amounts received to the estimated receipts." The Audit Guide directed the IPA to report as a finding all instances where the PCFO's spreadsheet did not calculate the estimated amounts from the payroll offices or compare the estimated amounts due to the actual amount received. However, no finding was reported by the IPA, although it clearly indicated that this was not done by the PCFO.

- **PCFO Budget and Administrative Expenses Step 1**: The step required the IPA to obtain a copy of the PCFO's 2007 application and review it for signed statements required by the Federal regulations. Our review found that the IPA obtained and reviewed the PCFO's 2008 application, not the 2007 application. Additionally, the 2008 application reviewed included an incomplete statement. Specifically, regulation 5 CFR 950.105 (c)(2)(iii) requires the PCFO to state that it is subject to the "decisions and supervision of the LFCC and/or Director." The PCFO's application reviewed by the IPA, and included in its working papers, did not include the language "and/or Director". Since the IPA did not report this as a finding in its report, the PCFO and OPM were not made aware of this error.

- **PCFO Budget and Administrative Expenses Step 2**: The step required the IPA to "report all instances where the LFCC did not select the PCFO and approve the PCFO's campaign plan and budgeted expenses, on or before March 15" (2007). The IPA obtained and reviewed a copy of the LFCC meeting minutes from February 19, 2008, where the LFCC selected the PCFO for the 2008 campaign, not the 2007 campaign. Additionally, the minutes only indicated that the LFCC selected the PCFO, but did not clearly indicate that it had approved the PCFO's campaign plan or budgeted expenses. The IPA did not report the lack of this clear approval in its report.

- **PCFO Budget and Administrative Expenses Step 6**: The step required the IPA to report as a finding all instances where the PCFO is not properly matching campaign receipts and expenses. The IPA, in completing this step, obtained a statement from the PCFO that said "The PCFO will cover all campaign costs at the start of the campaign and then recover their cost from the gross receipts of the same campaign." However, the actual expense listing included in the IPA's working papers clearly shows that the PCFO's charged expenses to the 2007 campaign were incurred from January 2007 through December 2007. This is incorrect because the 2007 campaign does not begin before the PCFO is officially selected by the LFCC. The deadline for this selection in 2007 was March 15, 2007. Therefore, any costs incurred before that date do not belong to the 2007 campaign. Consequently, the PCFO was not properly matching campaign receipts and expenses. The IPA did not report a finding in this area and, as a result, OPM and the PCFO were not made aware of this issue.

- **PCFO Budget and Administrative Expenses Step 7**: The step required the IPA to report as a finding all instances where the PCFO's allocated expenses were not "allocated in a fair or reasonable method ... based on actual expenses". The IPA relied upon an allocation spreadsheet provided by the PCFO as support for the allocation percentages applied to the expenses charged to the 2007 campaign. Based on our conversations with the PCFO, these allocation percentages were not based on actual expenses as required by the step. Additionally, the allocation percentages were not adequately documented or supported. However, the IPA did not report this as a finding in its report As a result, OPM and the PCFO were not made aware of this error.

- **Receipt and Disbursement of Funds Step 3**: The step required the IPA to report as a finding all instances where the PCFO did not disburse all receipts, less administrative expenses by the end of the campaign. The IPA noted in its review that the ending balance was "not zero, due to the distribution of prior year designations". The IPA should distinguish between campaign years and determine that all 2007 campaign year receipts were properly distributed. The audit step clearly states that the campaign's "ending balance should equal $0", and if this is not the case, it should be reported as a finding. As a result of not reporting this finding, the PCFO and OPM were not made aware of this error.

As a result of not completing the AUPs properly, the IPA inadvertently misled both OPM and the PCFO to believe that the PCFO was in compliance with and had effective controls over compliance with 5 CFR Part 950 and OPM guidance.

PCFO Comments:

The PCFO agrees with the finding and stated that in the future it will ensure that the IPA follows the OPM Audit Guide and when clarification is necessary will advise the IPA to contact OPM.

Recommendation 1

We recommend that the CFCO work with the LFCC and PCFO to ensure that the IPA fully understands the reviews required of it by the AUP steps and that the IPA, if it has questions, contacts OPM to obtain clarification.

B. BUDGET AND CAMPAIGN EXPENSES

1. LFCC Approval of Campaign Expense Reimbursement — Procedural

The PCFO did not submit to the LFCC, nor did the LFCC approve, the reimbursement of the 2008 campaign expenses to the PCFO.

5 CFR 950.104 (b)(17) states that it is the responsibility of the LFCC to authorize "to the PCFO 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 campaign expenses, approved by the LFCC, which reflect the actual costs of administering the campaign.

Our review of the LFCC meeting minutes did not identify where the LFCC discussed, reviewed, or approved the reimbursement of the 2008 campaign expenses to the PCFO. Additionally, discussion with the PCFO determined that both parties were unaware of their responsibilities regarding reimbursement of CFC expenses. The PCFO stated that as a result of our questions related to this subject, it became aware of this issue, and that it has instituted a policy to ensure that this request is made and approval obtained from the LFCC in the future (effective with the 2009 campaign year). We informed both the LFCC and the PCFO that prior to reimbursement of expenses, the LFCC must give authorization to the PCFO to do so.

As a result of not reviewing and approving the reimbursement of the 2008 campaign expenses, the LFCC ran the risk of unrelated expenses being charged to the agencies and federations of the campaign, thus reducing the monies due to them. Additionally, by not submitting its expenses for approval before their reimbursement, the PCFO's reimbursement was not authorized as required by the regulations.

PCFO Comments:

The PCFO agrees with the finding and stated that it confirmed that the campaign expense reimbursement approval is reflected in the LFCC minutes and has since been corrected.

OIG Comments:

The PCFO's response did not clearly state its corrective action. During our on-site review, the PCFO stated that it would institute a policy to submit its expenses for approval to the LFCC prior to the actual reimbursement being made. We request that the CFCO ensure that the PCFO's corrective action is acceptable.

Recommendation 2

We recommend that the CFCO ensure that the LFCC knows and understands its responsibilities under the Federal regulations, especially in regards to the PCFO's reimbursement of campaign expenses under 5 CFR 950.104 (b) (17).

Recommendation 3

We recommend that the CFCO ensure that the PCFO has instituted polices to submit its expense reimbursement requests to the LFCC for review and approval prior to making reimbursement of those expenses.

2. Unallowable Expense Charged to the 2008 Campaign $955

The PCFO charged the 2008 campaign for an expense that was not related to the CFC. As a result, the 2008 campaign was overcharged and the amounts disbursed to member agencies and federations were reduced by $955.

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."

Our review of the expenses charged to the 2008 campaign identified one charge to the campaign that was not related to the CFC. Specifically, we found one expense transaction, totaling $955, where the PCFO incorrectly charged the 2008 campaign for its membership dues to the United Way. This expense is not required by or related to the CFC. After discussion with the PCFO, it did not understand why the expense was charged to the campaign and agreed with our determination that the cost was unallowable to the CFC.

As a result of charging unallowable expenses to the 2008 campaign, the member agencies and federation's disbursements were reduced by $955.

PCFO Comments:

The PCFO agrees with the finding and stated that the $955 has been properly distributed. Additionally, the PCFO stated that its policies and procedures have been amended to ensure that United Way dues are not charged to the CFC in the future.

Recommendation 4

We recommend that the CFCO verify that the PCFO redistributed the proportionate share of the $955 overcharged to the member agencies of the 2008 campaign.

Recommendation 5

We recommend that the CFCO ensure that the PCFO has implemented polices and procedures to ensure that unallowable expenses are not charged to the CFC.

Recommendation 6

We recommend that the CFCO ensure that the LFCC understands its role in the review and approval of all costs charged to the CFC so that unallowable expenses are not charged to future campaigns.

3. Insufficient and Undocumented Allocation Methods **Procedural**

The allocation methods used by the PCFO were insufficient and undocumented and, therefore, not a reliable basis for allocating costs to the CFC. Additionally, we identified seven allocated expense transactions where the allocation percentage applied was incorrect and six allocated transactions that we and the PCFO could not reconcile to the amounts charged to the CFC.

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."

The CFCO's Audit Guide states that the allocation methodology should be reasonable so that "the CFC incurs a fair share of the costs. In addition, the allocations must be based on actual amounts that can be traced and agreed to the general ledger."

Our review of the PCFO's expense transactions found that all 23 allocated expenses reviewed did not have documentation which supported the reasoning for the allocation method used. The PCFO provided spreadsheets that it uses to determine which allocation method to apply to a CFC expense transaction. However, there was no additional documentation to support the figures going into the allocation calculations. After discussion with the PCFO, it was determined that the methods in place had been used for a number of years and had not been updated recently. The Audit Guide requires the PCFO to use an allocation methodology that is reasonable so that the CFC incurs a fair share of its related costs. It also requires that the allocations must be based on actual amounts that can be traced to the general ledger.

Additionally, we identified the following problems among the allocated expenses reviewed:

- Seven allocated expense transactions where the percentage charged to the CFC did not match the allocation documentation provided by the PCFO; and
- Six allocated expense transactions (salary related transactions totaling $2,454) where the OIG and the PCFO could not reconcile to the amount charged to the 2008 campaign.

As a result of these errors, the PCFO is running the risk of charging the CFC for expenses not actually incurred, which could negatively impact the amounts received by its member agencies and federations.

PCFO Comments:

The PCFO agreed with the finding and stated that allocation methods will be supported by adequate documentation in the future. Additionally, it provided specific percentages that expense categories would charge to the CFC for indirect expenses.

OIG Comments:

We accept the PCFO's response. However, we would like to stress that the allocation methods used by the PCFO for the CFC should have a reasonable basis that is supported by verifiable documentation and regularly checked and updated.

Additionally, in its response to the draft report the PCFO did not address recommendation number eight relating to a review of the allocation methods applied to its 2008 campaign expenses to ensure the accuracy of the percentages applied to indirect costs charged to the campaign.

Recommendation 7

We recommend that the CFCO ensure that the PCFO supports all allocations used to allocate CFC-related expenses with verifiable documentation, and that the allocations are reasonable and fairly share the expense cost with the CFC.

Recommendation 8

We recommend that the CFCO require the PCFO to review all allocated CFC expenses for the 2008 campaign to ensure that the correct allocation method was applied and that the charge to the 2008 campaign was correct.

Recommendation 9

We recommend that the CFCO ensures that the LFCC understands it responsibilities related to the review and approval of CFC campaign expenses.

4. Campaign Expenses Charged to the Wrong Campaign Year $13,420

The PCFO is not properly matching expenses with receipts of the same campaign year. As a result, $13,420 was incorrectly charged to the 2008 campaign year.

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."

Additionally, the CFC Calendar of Events, published by the CFCO, for the 2007/2008 campaign years states that the deadline for LFCC's to select a PCFO was March 17, 2008.

Furthermore, CFC Memorandum 2008-09 states that actual campaign expenses are not known at the time of the first disbursement to agencies (for the 2008 campaign year, by April 1, 2009). Therefore, the CFCO encourages LFCCs to authorize estimated expenses with that first disbursement. The estimated expense should be made up of the actual expenses up to that point, plus any estimated future expenses. Then the expenses charged should be reconciled to actual expenses, making any necessary adjustments, prior to the last campaign disbursement (for the 2008 campaign year, by March 31, 2010).

Our review of the expenses charged to the 2008 campaign found that the PCFO's standard practice is to charge each campaign for expenses on a calendar year basis. This is not in adherence with the regulations and CFC Memorandum 2008-09. Our review found that the PCFO charged the 2008 CFC campaign for 33 expense transactions, totaling $7,645, incurred before the start of the 2008 campaign (for our purposes, we are using March 1, 2008 as the start date of the 2008 campaign).

Additionally, we identified two IPA audit expense transactions, totaling $5,775, that although incurred in April and July of 2008, were related to the AUP audit of the 2006 campaign. The PCFO stated that it did not fully understand the regulations and other guidance for properly matching expenses with campaign receipts.

As a result of not properly matching expenses with campaign receipts, the PCFO inadvertently charged the 2008 campaign $13,420 for expenses related to the 2006 and 2007 campaigns. Continuation of this practice will impair future campaigns as well.

PCFO Comments:

The PCFO agrees with this finding and stated that the issue was due to the budget being set on a calendar year instead of a campaign year basis. To correct for this error in the future, the PCFO stated that it will establish its annual budget based on a campaign year (March through February) basis, and that the budget will include an accrual for costs estimated for the IPA audit of the campaign.

OIG Comments:

The PCFO's corrective action will not completely correct the problem identified by our finding. CFC Memorandum 2008-09 clearly describes the campaign period to be a two year period (approximately) and not 12 calendar months, which the PCFO's corrective action will entail. We request that the CFCO ensure that the PCFO's revised corrective action contain procedures which will allow it to account for all expenses related to a campaign (from inception to last agency disbursement).

Recommendation 10

We recommend that the CFCO ensure that the PCFO understands its responsibilities related to campaign expenses and properly matching them to the proper campaign year.

Recommendation 11

We recommend that the CFCO direct the PCFO to properly account for the CFC's expenses so that they are recovered from the receipts of the campaign year to which they are related.

5. PCFO Application Missing Required Language **Procedural**

The PCFO application accepted by the LFCC did not include all of the statements required in the Federal regulations.

5 CFR 950.105 (c) states that any "federation, charitable organization or combinations thereof wishing to be selected for the PCFO must submit a timely application in accordance with the deadline set by the LFCC." 5 CFR 950.105 (c) (2) requires the application to include statements 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."

Specifically, we reviewed the PCFO application to determine if each of the statements required by the Federal regulations was included. Our review found that the PCFO did not include the words "and/or Director" in the statement that the PCFO would "be subject to the decisions and supervision of the LFCC and/or Director." The PCFO stated that it did not understand or know that this statement should have been included in the application.

By accepting an application that did not include all of the required statements in the application letter, the LFCC approved a PCFO which did not state that it will abide by all of those things required of it by the Federal regulations.

PCFO Comments:

The PCFO agrees with the finding and stated that the missing language will be included in future PCFO applications.

OIG Comments:

We accept the PCFO's response. However, it did not provide a response to recommendation number 13. We recommend that the CFCO follow-up with the PCFO to ensure that the application covering the 2008 campaign (and future campaigns) is properly revised.

Recommendation 12

We recommend that the CFCO ensure that the LFCC understands the language requirements of the PCFO application and that it makes sure that the required language is included by all applicants considered for the position of PCFO in the future.

Recommendation 13

We recommend that the LFCC require the PCFO to submit a revised application for the agreement covering the 2008 campaign.

C. CAMPAIGN RECEIPTS AND DISBURSEMENTS

1. Pledge Card Errors — Procedural

Our pledge card review identified 13 pledge cards that were not entered into the pledge system correctly, which resulted in these donor's wishes not being adhered to.

5 CFR 950.105 (d) states that the "specific responsibilities of the PCFO include but are not limited to:

(1) Honoring employee designations. ...

(3) Training agency loaned executives, coordinators, and keyworkers in the methods of non-coercive solicitation. This training must be completely separate from training given for other types of charitable campaign drives. Additionally, keyworkers should be trained to check to ensure the pledge form is legible on each copy, verify arithmetical calculations, and ensure the block on the pledge form concerning the release of the employee's name and contact information is completed fully."

We reviewed a sample of 45 pledge cards to determine whether they were entered into the PCFO's pledge card database correctly. Specifically, we compared the actual pledge card to the database to determine if the following items were entered correctly: donor name, charity code(s) and amounts donated, total amount donated, and the donor's choice to release personally identifiable information. Our review identified 13 pledge cards with errors. Specifically, we found:

- Nine pledge cards where the donor chose to release their name and E-mail address. However, the PCFO incorrectly entered this information into the database. For each of these pledge cards, the PCFO correctly entered the E-mail address but incorrectly indicated that the donor chose to release their home address rather than their E-mail address. As a result, these donors did not have their desired information released. Upon further review with the PCFO, it appears as if this error was universal for the 2008 campaign. However, we determined that the error was corrected for the 2009 campaign based on our review of several pledge cards.
- Three pledge cards where the donor incorrectly entered the amount per pay period into the annual amount area for the designated charity. For example, a civilian donor (26 pay periods) chooses to donate $10 per pay period with a total donation amount of $260, but enters $10 in the annual amount area of the one charity code designated to. This error is twofold. First, the Key Worker did not identify and have the donor correct the pledge card prior to it being sent to the PCFO. Second, rather than contact the Key Worker to correct the obviously incorrect pledge card, the PCFO chose to treat the difference between the total amount donated and individual annual amounts as undesignated pledges. This, although adhering to the regulation, does not follow the overall spirit of the regulation's guidance to honor the donor's wishes.
- One pledge card which had two distinct errors. First, the PCFO altered the amounts donated for no apparent reason. The per pay period amount times the number of pay periods equaled the total amount donated, and the total of the annual amounts reconciled to the total amount donated. Therefore, there was no reason to adjust the pledge card. Additionally, the donor indicated that he wished to release his E-mail address, however, the PCFO failed to acknowledge this request by not entering this information into its pledge card database.

As a result of these errors, the donor's wishes on these 13 pledge cards were not honored according to the Federal regulations.

PCFO Comments:

The PCFO agrees with the finding and stated that if it identifies a mathematical or agency code error on a pledge card, that it will first contact the Unit Coordinator or Key Worker so they might make the correction through the donor. In all other cases where the PCFO is unable to resolve the error the PCFO will follow the procedures outlined in its response. Additionally, the PCFO stated that its Key Workers understand the importance of the accuracy of the pledge cards as a result of the training that they receive.

OIG Comments:

We accept the PCFO's response in regards to the correction of mathematical or agency code errors. However, the PCFO did not provide an explanation of the procedures put in place to ensure that all donor pledge card information is properly entered into the pledge card database (recommendation number 14). Additionally, the PCFO's statement that the Key Workers understand their responsibilities as a result of training received lacks support. It is our understanding that the Key Workers utilized during the 2008 campaign were trained. However, the errors identified in our review occurred in spite of the training provided. We suggest that the training provided be modified or enhanced to ensure that these types of errors are identified and corrected by the Key Workers before the pledge cards are sent to the PCFO. Finally, the PCFO's response did not touch on recommendation number 17 which recommended procedures for supervisory approval of pledge card changes made by the PCFO.

Recommendation 14

We recommend that the CFCO ensure that the PCFO has procedures in place to ensure that all information requested for release by the donor is properly entered into its pledge card database and that the information is released as requested.

Recommendation 15

We recommend that the PCFO ensure that all Key Workers understand that they are to verify the accuracy of all pledge cards before they are returned to the PCFO, and that errors identified are to be corrected by the donor before the pledge card is forwarded.

Recommendation 16

We recommend that the CFCO direct the PCFO to institute procedures to have the Key Worker contact the donor when obvious and easily correctable errors are identified on a pledge card.

Recommendation 17

We recommend that the CFCO direct the PCFO to institute procedures requiring supervisory approval of all pledge card changes prior to their entry in the pledge card database.

2. **LFCC Approval of One-Time Disbursements** **Procedural**

The PCFO made one-time disbursements to agencies with gross designations of $500 and below before receiving approval from the LFCC.

5 CFR 950.901 (i)(3) states that the PCFO "may make one-time disbursements to organizations receiving minimal donations from Federal employees. The LFCC must determine and authorize the amount of these one-time disbursements."

Our review found that the PCFO disbursed one-time payments to all agencies with gross designations of $500 or less on March 31, 2009. However, according to the LFCC meeting minutes, the one-time disbursement of these funds was actually approved on April 8, 2009. Per discussion with the PCFO, this error in timing occurred because the PCFO was away at a CFC workshop when the initial payments for 2008 went out and approval was sought after their return. According to the PCFO, this was not typical, and they normally obtained approval in advance.

Even though the approval of one-time disbursements has been a regular occurrence in the past, the approval should have been obtained before the payments were made.

PCFO Comments:

The PCFO agrees with the finding and stated that this procedure has been corrected and reflected in the LFCC minutes. The PCFO also stated that this procedure is covered in the LFCC Training held in January.

OIG Comments:

The PCFO did not provide any specific procedures in its corrective action plan. We ask that the CFCO follow-up with the PCFO, obtain the specific procedures to address the issue, and advise the PCFO as to the adequacy of the procedures.

Recommendation 18

We recommend that the CFCO ensure that the PCFO understands that the LFCC must determine and authorize the amount of one-time disbursements before the payments are actually made.

D. ELIGIBILITY

Our review of the campaign's eligibility processes showed that the Island County CFC complied with the applicable provisions of 5 CFR 950.

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.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

[redacted] Senior Team Leader

[redacted] Auditor

[redacted] Group Chief, [redacted]

APPENDIX

2007 and 2008
COMBINED FEDERAL CAMPAIGNS
OF ISLAND COUNTY
OAK, HARBOR, WASHINGTON

Report no. 3A-CF-00-10-037 **Response Date: October 6, 2010**
Revised: January 6, 2011

Response from United Way of Island County serving as the Principal Combined Fund Organization (PCFO)

AUDIT GUIDE REVIEW

- **Agreed-Upon Procedures Not In Compliance with the Audit Guide**

  The Independent Public Accountant did not complete all the agreed –upon procedures in accordance with the Audit Guide.

  PCFO Response: We are in the process of reviewing all the agreed-upon procedures in accordance with the Audit Guide that were not completed by the Independent Public Accountant. We will in the future insure that those procedures are corrected and that the IPA follows OPM Audit Guidelines. We will also advise IPA to contact OPM to obtain clarification, when necessary.

BUDGET AND CAMPAGN EXPENSES

- **LFCC Approval of Campaign Expense Reimbursement**

  The PCFO did not submit its expenses related to the 2008 campaign to the LFCC for approval prior to reimbursement.

  PCFO Response: We agree with the finding.

  Corrective Action Plan:

  We have since confirmed that the campaign expense reimbursement approval is reflected in the LFCC minutes and has since been corrected.

- **Unallowable Expenses Charged to the 2008 Campaign**

  The PCFO charged an unallowable expense, totaling $955, to the 2008 campaign.

  PCFO Response: We agree with the finding.

Corrective Action Plan:

$954.72 was reimbursed to the CFC and disbursement to member agencies of the 2008 campaign were made 1-7-2011. CFC Policy and Procedures for the CFC notes that no membership dues to United Way of America will be charged to the CFC.

- **Insufficient and Undocumented Allocation Methods**

The allocation methods used by the PCFO to allocate cost to the 2008 campaign were insufficient and were not supported by adequate documentation. Additional we identified a number of transactions which used incorrect allocation percentages or where the OIG and the PCFO could not reconcile the amount charged to the general ledger.

PCFO Response: We agree with the finding.

Corrective Action Plan:

We have insured that allocation methods will be supported by adequate documentation. CFC Policy and Procedures state that direct costs are allocated at 100%. Rent, utilities, office supplies, postage, equipment maintenance, insurance and technical support are allocated at 35% to CFC, 65% allocated United Way of Island County. Salaries and benefits are charged at 38% to CFC, 62% allocated to United Way.

- **Campaign Expenses Charged to the Wrong Campaign Year**

The PCFO did not properly match its expenses to campaign receipts charged the 2008 campaign expenses related to the 2006 and 2007 campaigns.

PCFO Response: We agree with this finding.

Corrective Action Plan:

This issue was due to the budget being set based on a calendar year, January through December instead of the campaign year, March to February. The PCFO shall establish an annual budget for the period of March 1 through February 28. The annual budget shall contain estimated costs to be accrued for the Independent Pubic Accountant (IPA) audit for that campaign.

- **PCFO Applications Missing Required Language**

The United Way of Island County's application to serve as PCOF did not included all of the specific language required by the regulations.

PCFO Response: We agree with the finding.

Corrective Action Plan:

The missing language will be included in future applications. Future PCFO applications will included the words "and/or Director" in the statement that the PCFO would be "subject to the decisions and supervision of the LFCC and/or Director."

CAMPAIGN RECEIPTS AND DISBURSEMENTS

- **Pledge Card Errors**

The PCFO_incorrectly input 13 pledge cards causing it to not follow the CFC Donor's wishes.

PCFO Response: We agree with the finding.

Corrective Action Plan:

If PCFO finds any mathematical or agency code errors, the PCFO shall notify the Unit Coordinator or Key Worker requesting they contact the person making the pledge to request they correct the error.

If PCFO is unable to resolve the error on the pledge form, the following actions will occur:

- If the error is a mathematical error resulting in the entire pledge amount NOT being assigned to a charity, the remaining amount will be assigned as Undesignated Funds.
- If the error is a mathematical error resulting in the sum of the pledge(s) exceeding the total amount pledged, the amount pledge to each charity will be reduced proportionally so the sum is equal to the total amount pledged.
- If the error is an incorrect agency code, the funds will be assigned as Undesignated Funds.

Recommendation 15: This was due to clerical error by previous administrative assistant.

Recommendation 16: This procedure is covered in Unit Coordinator/Key Worker Training attended by the federal employees that volunteer for the CFC.

Recommendation 17: This is covered in the Corrective Action Plan above.

- **LFCC Approval of One-Time Disbursements**

The PCFO made one-time disbursements for the 2008 campaign before obtaining approval from the LFCC.

PCFO Response: We agree with the finding.

Corrective Action Plan:

This procedure has since been corrected and reflected in the LFCC minutes. This procedure is covered in the LFCC Training held in January.

Submitted by: [redacted]
United Way of Island County
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Oak Harbor, WA 98277