



US OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS

Final Audit Report

Subject:

**AUDIT OF THE 2005 AND 2006
COMBINED FEDERAL CAMPAIGNS
OF SOUTH PUGET SOUND
TACOMA, WASHINGTON**

Report No. 3A-CF-00-08-034

Date: February 19, 2009

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

AUDIT REPORT

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A handwritten signature in black ink, appearing to read "Michael R. Esser".

Michael R. Esser
Assistant Inspector General
for Audits



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

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Inspector General

EXECUTIVE SUMMARY

**AUDIT OF THE 2005 AND 2006
COMBINED FEDERAL CAMPAIGNS
OF SOUTH PUGET SOUND
TACOMA, WASHINGTON**

Report No. 3A-CF-00-08-034

Date: February 19, 2009

The Office of the Inspector General has completed an audit of the South Puget Sound Combined Federal Campaigns (CFC) for 2005 and 2006. The United Way of Pierce County, located in Tacoma, Washington, served as the Principal Combined Fund Organization (PCFO) during both campaigns. Our main objective was to determine if the South Puget Sound 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 seven instances of non-compliance with the regulations (5 CFR 950) governing the CFC.

AUDIT GUIDE REVIEW

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

The PCFO's Independent Public Accountant's audit of the 2005 campaign did not comply fully with all aspects of the 2007 Audit Guide.

BUDGET AND CAMPAIGN EXPENSES

- **Campaign Expenses**

The PCFO did not maintain sufficient documentation for CFC campaign expenses and inappropriately charged the 2006 campaign for costs related to a prior campaign.

- **Notification Letters Not Maintained**

The PCFO did not provide documentation to support that pledge notification letters and donor lists were sent to its member agencies and federations as required by the regulations.

- **PCFO Application Not in Compliance**

The LFCC approved a PCFO application that was not in compliance with all of the requirements outlined in 5 CFR 950.105 (c).

CASH RECEIPTS AND DISBURSEMENTS

- **Campaign Receipts Not Disbursed Properly** **\$1,016**

The PCFO did not disburse \$1,016 in CFC receipts and did not disburse all CFC funds in the CFC account during each disbursement period for the 2006 campaign.

- **Pledge Card Error**

The PCFO did not identify an improperly completed pledge card which allowed funds to be allotted to agencies not designated by the donor.

- **Pledge Loss Calculated Incorrectly on One-Time Disbursements**

The PCFO calculated pledge loss incorrectly for all agencies and federations receiving one-time disbursements in the 2006 campaign year.

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I. INTRODUCTION AND BACKGROUND

Introduction

This report details the findings, conclusions, and recommendations resulting from our audit of the South Puget Sound Area Combined Federal Campaigns (CFC) for 2005 and 2006. 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. It consists of 278 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, deciding on the eligibility of local voluntary organizations, electing and supervising the activities of the PCFO, and acting upon any problems relating to a voluntary agency's noncompliance with the policies and procedures of the CFC. The PCFO is responsible for training employee key-workers and volunteers; preparing pledge cards and brochures; distributing campaign receipts; submitting to an extensive and thorough audit of its CFC operations by an Independent Certified Public Accountant (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 950 (5 CFR 950), the regulations governing CFC operations, sets forth ground rules under which charitable organizations receive Federal employee donations. Compliance with these regulations is the responsibility of the PCFO and LFCC. Management of the PCFO is also responsible for establishing and maintaining a system of internal controls.

Our previous audit of the South Puget Sound CFC was completed in 2000 and covered campaign years 1997 and 1998. The audit identified one area of non-compliance, which was satisfactorily resolved through the OCFCO.

The initial results of our audit were discussed with PCFO officials during an exit conference held on May 22, 2008. A draft report was provided to the PCFO and the LFCC on August 26, 2008

for review and comment. The PCFO'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 of the South Puget Sound CFC was to determine compliance with 5 CFR 950. Our specific audit objectives for the 2006 campaign were as follows:

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 2005 campaign was:

Audit Guide Review

- To determine if the IPA completed the Agreed-Upon Procedures (AUP) as outlined in the February 2007 CFC Audit Guide (For Campaigns with Pledges \$1 Million and Greater) [CFC Audit Guide] for the 2005 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 2005 and 2006. The audit fieldwork was conducted in Tacoma, Washington, from May 19 through 23, 2008. Additional audit work was completed at our Washington, D.C. office.

The South Puget Sound CFC received campaign pledges, collected campaign receipts, and incurred campaign administrative expenses for the 2005 and 2006 campaigns as shown below:

<u>Campaign Year</u>	<u>Total Pledges</u>	<u>Total Receipts</u>	<u>Administrative Expenses</u>
2005	\$1,122,453	\$1,097,861	\$131,770
2006	\$1,140,364	\$1,115,185	\$130,214

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 else came to our attention during our audit testing utilizing the computer-generated 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 whether 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 that they were properly sent by the LFCC.
- The LFCC's processes and procedures for responding to appeals from organizations.

In order to address 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 17 actual expenses from 23 expense accounts. We selected 14 general ledger transactions greater than \$600 and 3 credit transactions.

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

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

- A judgmental sample of 25 out of 8,686 pledge cards and compared them to the Pledge Card Report and actual pledge cards from the PCFO.
 1. Selected 10 pledge cards where the individual amounts pledged did not reconcile to the total amount pledged to the CFC; then
 2. Selected 15 pledge cards by choosing every 550th pledge card.
- 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 before the March 15, 2006 deadline.
- 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.
- Forms 1417 provided by the PCFO and the OCFCO to identify material differences.
- The PCFO Distribution Schedule to verify whether the monthly disbursements reconcile with the PCFO's Campaign Receipts and Disbursements Schedule.
- All bank statements used by the PCFO for the 2006 campaign 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 whether disbursements were accurate and proportionate to the PCFO's allocation rates.

To determine whether the PCFO was in compliance with the CFC regulations as a federation (United Way of Pierce County), we reviewed the following:

- Data reported on the CFC Receipts Schedule with supporting documentation to verify if the receipts were properly recorded.
- The CFC Distribution Schedule to determine if the United Way of Pierce County disbursed funds to member agencies not participating in the 2006 CFC.
- The United Way of Pierce County's contract with its member agencies to determine if the fees were reasonable and supported.

The samples selected and reviewed above 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 2007 CFC Audit Guide and determined the type of audit required to be completed by the IPA for the 2005 campaign. We also completed the AUP checklist to verify if the IPA completed and documented the AUP steps.

III. AUDIT FINDINGS AND RECOMMENDATIONS

The PCFO and LFCC administered the 2005 and 2006 South Puget Sound 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

The PCFO's IPA audit of the 2005 campaign did not fully comply with the requirements of the 2007 CFC Audit Guide. The Audit Guide includes AUPs that the IPA must perform in its annual audit of the campaign.

We reviewed the IPA working papers to determine if it complied with the requirements stated on the Audit Guide for the 2005 campaign. As discussed below, we identified two areas where the IPA did not fully comply with the requirements.

- The IPA completed one step required by the Audit Guide incorrectly.
 - PCFO Budget and Administrative Expenses step seven was not completed according to the requirements set forth in the Audit Guide. The Audit Guide required the IPA to select a representative sample of 10 actual expenses incurred by and reimbursed to the PCFO for the Fall 2005 campaign. The IPA selected a sample of 10 actual expenses; however, the expenses selected were from the Fall 2006 campaign and not the Fall 2005 campaign as required.
- The IPA did not maintain sufficient documentation for one step to determine whether the AUP step was completed correctly.
 - Pledge Card Tracking System step three required the IPA to obtain support for tracking and analyzing the payroll office receipts from the PCFO. We could not determine if the IPA completed this step correctly because no documentation supporting its review was maintained in the working papers provided for review.

Completion of the AUPs as provided in the Audit Guide is important because it helps the OCFCCO and LFCC to more effectively monitor CFC campaign activities.

PCFO's Comments:

The PCFO agrees with this finding and states that it intends to establish procedures to ensure that the IPA's work complies with the CFC Audit Guide requirements for future campaigns.

OIG Comments:

The PCFO's response does not consider the portion of the finding regarding lack of documentation. We suggest that the PCFO also include guidelines for its IPA to maintain documentation sufficient for a third party to ensure that all steps of the AUPs have been completed satisfactorily in the future.

Recommendation 1

We recommend that the OCFCO verify that the procedures put in place by the LFCC and PCFO are sufficient to ensure that the AUPs are fully and accurately completed and the work appropriately supported in the AUP work papers.

Recommendation 2

We recommend that the OCFCO ensure that the LFCC and PCFO work with their IPA to make certain that the AUPs completed are verifiable with sufficient supporting documentation.

B. BUDGET AND CAMPAIGN EXPENSES

1. Campaign Expenses

The PCFO did not maintain sufficient documentation for CFC campaign expenses and inappropriately charged the 2006 campaign for costs related to a prior campaign.

5 CFR 950.105 (d) (7) states that the PCFO is responsible for ensuring that the actual expenses related and charged to the CFC are supported with sufficient documentation.

Additionally, 5 CFR 950.106 (a) and (b) state that the PCFO may only recover campaign expenses reflecting the actual cost of administering the local campaign from the receipts of that campaign year.

We judgmentally selected a sample of 17 actual expenses charged to the CFC from the PCFO's general ledger to determine if the costs were actual CFC expenses, if they were supported by sufficient documentation, and if the expenses were related to the campaign year it was charged to. As a result of our review, we identified two expense transactions that did not meet these criteria. Specifically we found the following errors:

Auditing Fees:

We identified an invoice charging the 2006 CFC \$6,000 that was not related to the 2006 campaign year. The invoice, dated April 28, 2006, was related to the required audit of the CFC financial statements and AUPs performed by the PCFO's IPA. However, the expense was incurred early on in the 2006 campaign year (prior to solicitation of donations, receipt of any funds, or distribution of

funds to charities) and was not related to the 2006 campaign. IPA audits of the 2006 campaign would have to occur after the end and closeout of the campaign, which would be sometime in 2008. As a result, the PCFO charged the 2006 campaign for costs related to a previous campaign.

Temporary Salaries:

We identified an invoice charging the 2006 CFC \$617 for temporary salaries that was not identifiable as an actual CFC cost. Specifically, the invoice was addressed directly to the United Way of Pierce County (UWPC) and not to the CFC. Additionally, there was nothing on the invoice, or the supporting time cards, that identified the costs as relating or belonging to the CFC. As a result, we could not determine if the costs were actual CFC expenses.

PCFO's Comments:

The PCFO does not agree with this audit finding and states that the OIG has too broadly defined the requirement to maintain detailed information because the regulation requires that itemized receipts be maintained "to the extent possible." It also states that the OCFCO has not spelled out any requirements that are more specific than those outlined in the regulations. It feels it has met the requirements of the regulation because it has maintained copies of the invoices; kept the costs and documentation separate from non-CFC information; the costs were included in the budget approved by the LFCC, and the individual expenses were approved by the CFC Director prior to payment. In regards to the specific items questioned, the PCFO stated the following:

Auditing Fees:

The PCFO stated that setting aside CFC dollars to pay for future costs would require it to be in violation of GAAP which looks at expenditures in an audit cycle, not a campaign cycle.

Temporary Salaries:

The PCFO states that because the invoice was coded as a CFC expense (to account 5-7006-99), the time cards were signed and approved by the UWPC, and the costs correctly correspond to the budget submitted by the PCFO (and approved by the LFCC) that these cost are sufficiently documented as CFC costs.

OIG Comments:

We disagree with the PCFO's assertion that the OIG has placed too broad a definition on the documentation required to determine costs allowable to the CFC. The LFCC is required by the Federal regulations to review and approve the reimbursement of the PCFO for "only those campaign expenses that are legitimate CFC costs and are adequately documented." As a result, it is the inherent responsibility of the PCFO to

maintain documentation sufficient for the LFCC, and other auditors, to determine if the expenses are “legitimate” CFC costs even though the specifics of the requirement are not spelled out in the regulations. Our comments in regards to the specific items questioned are below:

Auditing Fees:

The PCFO is incorrect in its interpretation of the regulation, as well as its GAAP requirements, and is in violation of the Federal regulations by not properly matching expenses to the period (campaign year) in which they are related to. This topic has been covered by the OCFCO in its CFC Regional Workshops (‘Accounting for the CFC’ breakout sessions) on a yearly basis. Additionally, the OCFCO has also recently updated its guidance to clarify the issue and further support our position. It states that because IPA audit expense is “paid after the close of the campaign, the amount should be accrued and withheld from the last distribution. We encourage campaigns to negotiate a fixed cost agreement with the Independent Public Accountant (IPA) so that the actual amount can be known prior to the close of the campaign. If campaigns are unable to negotiate a fixed cost agreement, an estimated amount should be withheld based on prior experience and discussions with the auditor.” According to discussions with the OCFCO, although the memorandum was issued (CFC Memorandum 2008-09, dated November 14, 2008) after the date of our audit, this has been the opinion of the OCFCO since the inception of the CFC Audit Guide.

Temporary Salaries:

We disagree with the PCFO's opinion that the charges to the campaign were sufficiently documented. We do recognize that the use of temporary employees (especially for the data entry of pledge cards) is a typical practice of PCFO's; therefore, we are not questioning the charges.

However, the manner in which the PCFO maintains documentation for these costs should be improved. The invoice provided for review did not, in any readily identifiable way, indicate that it was related to the CFC or that the temporary employees worked on CFC related items.

The PCFO's stance, that coding the invoice to a CFC account identified it as a CFC expense, is not sufficient support that the work was related to the CFC. Coding the invoice merely shows that it should be charged to the CFC. The fact that the invoice corresponds to the approved budget shows that this type of expense was expected, not that this invoice is an allowable cost to the CFC. Lastly, the fact that the time cards were signed/approved by a UWPC employee shows that the work was approved for payment and not that it was related to the CFC. None of these arguments can show that the temporary employees worked on CFC related items or that all of their time was spent on the CFC.

We suggest that the PCFO require the temporary employees working on CFC related items to indicate that their work was for the CFC on their time card; if they work on other non-CFC areas that should be noted as well. Cost should then be allocated to the CFC based on the ratio of hours worked on the CFC and all of this information should be maintained with the invoices.

Recommendation 3

We recommend that the OCFCO direct the PCFO to follow the guidelines set forth in CFC Memorandum 2008-09 in regards to CFC Audit Expense Reimbursement for future campaigns.

Recommendation 4

We recommend that the OCFCO direct the PCFO to institute procedures that ensure all CFC expenses are sufficiently documented so that they can be easily identifiable as actual CFC costs for future campaigns.

2. Notification Letters Not Maintained

The PCFO did not maintain documentation to support that pledge notification letters and donor lists were sent to its member agencies and federations as required by the Federal regulations.

5 CFR 950.601 (c) states that "It is the responsibility of the PCFO to forward the contributor information for those who have indicated that they wish this information released to the recipient organization directly, if the organization is independent, and to the organization's federation if the organization is a member of a federation."

5 CFR 950.901 (i) (1) states that "The PCFO shall notify the federations, national and international organizations, and local organizations as soon as practicable after the completion of the campaign, but in no case later than a date to be determined by OPM, of the amounts, if any, designated to them and their member agencies and of the amounts of the undesignated funds, if any, allocated to them."

As part of our audit process we requested that the PCFO provide copies of the pledge notification and donor letters sent to the agencies and federations as required by the Federal regulations. The PCFO stated that the reports were sent out via e-mail by a previous CFC Director. However, the e-mail files associated with that former Director were not maintained. Therefore, the PCFO was unable to provide support to show that the pledge notification letters were sent.

As a result of the PCFO not maintaining documentation to support the remittance of the pledge notification and donor list letters to the agencies and federations, we were unable to determine if or when the notifications were sent.

PCFO's Comments:

The PCFO agrees with the finding and states that it has implemented procedures to maintain both copies of pledge and donor reports sent via E-mail in its E-mail system and electronic versions to a computer hard drive. Additionally, it will maintain hard copies of the reports and e-mails to show when and to whom the reports were sent.

Recommendation 5

We recommend that the OCFCO verify that the PCFO has put procedures in place that ensure that it maintains documentation to support that it has sent pledge notification letters and donor lists to the appropriate agencies and federations as required by the Federal regulations.

3. PCFO Application Not in Compliance

For the Fall 2006 campaign year, the LFCC approved a PCFO application that was not in full compliance with all mandatory statements and regulation references in 5 CFR 950.105 (c).

5 CFR 950.105 (c) (3) states that the PCFO application should include a "statement signed by the applicant's local director or equivalent acknowledging the applicant is subject to the provisions of [5 CFR] 950.403 and 950.603."

We reviewed the PCFO application approved by the LFCC to determine if it was in compliance with the regulation. During our review, we determined that the application did not include a signed statement stating that it is subject to the provisions of 5 CFR 950.403 and 5 CFR 950.603. The application included incorrect references to 5 CFR 950.202 and 5 CFR 950.203.

As a result of accepting an application that did not fully comply with CFC regulations, the PCFO is not fully acknowledging its obligations under the Federal regulations.

PCFO's Comments:

The PCFO stated that this error was identified by its IPA and that it notified the LFCC of this and instituted a corrective action plan to amend the contract with the LFCC for the correct regulation references on July 29, 2008. Furthermore, it notified the OCFCO of this error with a corrective action plan on September 10, 2008 which was approved on September 11, 2008 by the OCFCO. Therefore, the PCFO feels that it has already instituted procedures to resolve this finding.

OIG Comments:

We agree with the PCFO that the corrective action plan implemented should prevent a reoccurrence of this finding in the future. However, since the corrective action plan

was submitted to OPM after the OIG audit exit conference (May 22, 2008) and draft audit report (dated August 26, 2008) where this finding was mentioned and included, the finding remains in the report.

Recommendation 6

We recommend that OCFCO ensures that the PCFO amends its current contract with the LFCC to correct the references required by the regulations and ensure that it references those correct regulations in future PCFO applications submitted.

C. CASH RECEIPTS AND DISBURSEMENTS

1. Campaign Receipts Not Disbursed Properly **\$1,016**

The PCFO did not disburse \$1,016 in CFC receipts received for the 2006 campaign and did not disburse all CFC funds in the CFC account at each disbursement period in accordance with the Federal regulations.

5 CFR 950.901 (i) (2) states that the PCFO is responsible for the accuracy of the disbursements it transmits to member agencies and federations. It also states that the PCFO shall distribute all CFC receipts at least quarterly beginning April 1 and that the CFC account balance shall be zero at the end of each disbursement period.

During our review we documented, using CFC bank statements, all CFC receipts and disbursements for the 2006 campaign to determine if all CFC funds were disbursed to agencies participating in the CFC and if the account balance was zeroed out at the end of each disbursement period. Our review found that CFC receipts (cash donations and payroll deposits, plus interest, less bank fees) for the period totaled \$1,115,185 and that the CFC disbursed (agency and federation payments plus PCFO reimbursement) a total of \$1,114,169. The resulting variance of \$1,016 was not properly disbursed to the member agencies and federations of the 2006 CFC campaign.

We also noted that when disbursements were made by the PCFO, it did not disburse all CFC funds in the CFC account to bring the account to zero as required by the Federal regulations. Our review noted balances of \$69,364, \$37,457, \$12,703 and the outstanding \$1,016 as remaining in the account after each disbursement.

As a result of these errors the member agencies and federations of the 2006 campaign did not receive proper payments throughout the campaign period and are due \$1,016.

PCFO's Comments:

The PCFO does not agree with this audit finding and states that the \$1,016 was not disbursed due to minimum balance requirements for the bank account used to maintain campaign receipts.

OIG Comments:

Minimum balance requirements do not excuse the PCFO from adhering to the regulations governing the CFC. The reasoning that monies had to be withheld from participating charities is invalid, because at the time of the final disbursement to agencies of the 2006 campaign (February 2008) the PCFO had already received cash donations and Federal payroll withholding deposits related to the 2007 campaign which would exceed the \$1,000 minimum balance requirement.

The PCFO did not consider the fact that it did not disburse all CFC funds in the CFC account to bring the account to zero at the end of each disbursement period. A possible method to address this would be for the PCFO to use the prior month's ending balance as the amount to disburse (i.e., April payment should use March's ending balance) for the first three quarterly disbursements. This should allow the PCFO to also maintain the minimum balance in the account, although consideration could also be given to changing to an account without a minimum balance requirement.

Recommendation 7

We recommend that the OCFCO direct the PCFO to distribute \$1,016 in CFC receipts retained to members of the 2006 CFC.

Recommendation 8

We recommend that the OCFCO ensure that the PCFO understands its responsibility to distribute all CFC funds on hand at the end of each disbursement period and that it puts procedures in place to distribute funds in accordance with the regulations.

2. Pledge Card Error

The PCFO did not identify an improperly completed pledge card and allowed funds to be allotted to agencies not designated by the donor.

The 2006 CFC Brochure states that the donor may designate to the agency of their choice in the spaces provided; however, additional designations must be made on a second pledge card.

5 CFR 950.402 (d) states that "In the event the PCFO receives a pledge form that has designations that add up to less than the amount pledged, the PCFO must honor the total amount pledged and treat the excess amount as undesignated funds."

We reviewed 25 pledge cards to determine if the following areas were correctly input into the pledge system by the PCFO: a) donor name, b) amount donated, c) agency codes donated to, d) total amount donated, and e) donor's choice of releasing personal information to agencies. Our review identified one pledge card that was not completed properly by the donor and not properly accounted for by the PCFO. Specifically, the

donor completed a pledge card with no charity codes listed, but with a total gift of \$1,998 and a note that stated "see attachment." The attachment listed 27 charity codes with another note indicating a donation of \$74 to each. In accounting for the donor's wishes, the PCFO designated \$74 to the first five charity codes listed and accounted for the remaining \$1,628 as undesignated funds.

This donor's pledge was mishandled on various levels. First, if properly trained, the Key Worker should have identified the pledge card as improperly completed and returned it to the donor letting them know that additional pledge cards would need to be completed to donate to 27 charity codes. Secondly, if not identified by the Key Worker, the PCFO should have identified the pledge card as improperly completed when inputting the information into the pledge card system. The PCFO should have either sent the pledge card back to the Key Worker to obtain clarification from the donor, or, if time was not available to wait for a response from the Key Worker, the PCFO should have treated the entire pledge as undesignated funds considering that the card itself did not designate any specific charities.

Failure to identify incorrectly completed pledge cards may lead to the PCFO not ensuring that the designations of Federal employees are honored.

PCFO's Comments:

The PCFO agrees with the finding and states that it has amended the Key Worker Resource Guide and Loaned Executive training to stress that separate pledge cards must be used.

Recommendation 9

We recommend that the OCFCO and LFCC verify that the PCFO has amended its Key Worker training so that improperly completed pledge cards are caught and corrected prior to being sent to the PCFO for processing.

3. Pledge Loss Calculated Incorrectly on One-Time Disbursements

The PCFO calculated pledge loss incorrectly on those agencies and federations receiving one-time disbursements in the 2006 campaign year. As a result of this error, disbursements to those agencies and federations were reduced by \$778.

5 CFR 950.901(i) (3) states that the PCFO can make one-time disbursements to organizations receiving minimal donations. The regulations also provide that the PCFO may deduct the proportionate amount of each agency's and federation's share of the campaign's administrative cost plus the average of the last three year's pledge loss from the one-time disbursement.

The LFCC approved one-time disbursements to organizations with total anticipated receipts (total designations less administrative costs and pledge loss) of \$1,500 or less

for the campaign. Using the pledge loss from the prior three years, we calculated the average pledge loss percentage (6.84 percent) for those years and compared that percentage to the percentage applied to one-time disbursements by the PCFO (7.88 percent). Our review found that the PCFO applied an incorrect pledge loss percentage which resulted in the disbursements to those agencies being reduced by a total of \$778.

PCFO's Comments:

The PCFO agrees with the finding.

Recommendation 10

We recommend that the OCFCO and the LFCC ensure that the PCFO understands the pledge loss calculation and applies the appropriate percentage to one-time disbursements in future campaigns.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

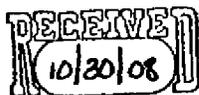
Special Audits Group

██████████, Auditor-In-Charge

██████████, Auditor

██████████, Group Chief ██████████

██████████ Senior Team Leader



20 October 2008

TO: United States Office of Personnel Management – Office of the Inspector General -

Attn: [REDACTED]

FROM: Director CFC South Puget Sound (0925), Sean Armentrout, per the United Way of Pierce County (PCFO)

SUBJECT: Response from United Way of Pierce County (PCFO) – 2008 OPM Audit Draft Report

The PCFO, United Way of Pierce County (hereafter referred to as UWPC), provides the following response to the findings and recommendations of the 26 August 2008 Draft Audit Report. The signatures of the UWPC's Chief Financial Officer and the LFCC Finance Committee Chair are also provided.

A1: Agreed Upon Procedures

We concur that the selection of actual expenses from 2006 instead of 2005 is an error. We recognize that human error is possible – and that it was not a systematic error of not pulling the correct kind of expenses or quantity required. We concur with Recommendation 1 and will establish procedures to assure accurate work and documentation of it.

B1: Budget and Campaign Expenses:

We **DO NOT** concur with the findings that the UWPC, as PCFO, did not maintain proper documentation of campaign expenses as purported in the draft findings as “either not identifiable as benefiting the CFC or charged to the wrong campaign year.” As a result, we also do not concur with the corresponding recommendations (2 and 3) in the report.

- a. First, the actual language of 5 CFR 950.105(d) that spells out UWPC's actual responsibilities as a PCFO, at clause (7) provides “Maintaining a detailed schedule of its actual CFC administrative expenses with, to the extent possible, itemized receipts for the expenses.” It goes on to state how the schedule must be able to relate back to the PCFO budget which the PCFO must maintain. The Auditor's have included a “broad documentation” definition that is not supported anywhere in the CFR regulations governing the campaign. In fact, there is not even a definitive requirement for all expenses to have the itemized receipt; rather it is an extent possible requirement. Additionally, unlike the application process, that has OPM Memorandum (2006-22) that spells out more specific documentation requirements, there are no such guidelines or requirements pertaining to the provision at 5 CFR 950.105(d)(7).

- b. Each item in question – had documentation of the expense. Each was kept in a separate CFC ledger of expenses, as to ensure no improper comingling of UWPC general expenses with those of the CFC. All were specifically annotated to the corresponding line item of the Budget submitted and approved by the LFCC. All were signed as authorized by either the Director of the CFC at the time (Joe O’Neil) or with time cards the person who managed their daily CFC duties. Therefore it meets the requirements of 5 CFR 950.105(c)(1) and 5 CFR 950.105(d)(7). The Findings’ more broadly construed definition of documentation is outside the bounds of any regulatory prescribed requirements. In fact, the Executive Summary of the CFC Audit Guide for 2006 stated that the purpose is to provide “OPM assurance that LFCCs and PCFOs are complying with the CFC regulations... have **adequate** internal controls over their CFC related operations; and [to provide] CFC donors and other stakeholders assurance that all local campaigns meet their high expectations of accountability.”
- c. We address each issue raised one-by-one *below*. Our documentation demonstrates we have internal controls and supports that the costs in question were CFC related and provide the LFCC and donors such assurance, thereby meeting the provided purpose as well as the regulatory requirements of 5 CFR 950.
- i. **Unallowable Expenses - Express Personnel Services – Temporary Support (Sample #4 Ledger Acct 5-7006-99)**

The auditor’s comments challenge that they “need support to show these persons physically worked on the CFC.” As a PCFO, the UWPC has a **separate code of 5-7006-99 for all temporary support attributed to the CFC campaign**. The invoice was properly coded with this account number. The invoice itself corresponds with the budget and paperwork provided. Additionally, the person that supervises the CFC temporary data input workers, Maryann Callanan, signed the time cards. You can verify the evidence of her signature on the time card. The manner in which the temporary employees were hired and records maintained is in compliance with *standard business practices* of the temporary employment industry. These items correctly correspond to the line-item budget submitted to and approved by the LFCC and also provided to the auditors. **The documentation meets the requirements of D(7)**. The documents in question are attached at Attachment 1. The auditor’s annotation that it does not indicate it is related to the CFC fails to account that there is a code on top right of 1st page of document (ledger 5-7006-99) that identifies it as such, and is signed off by the person who oversaw their CFC related work. The auditors place a burden that is neither practical nor supported by CFR requirements or OPM memorandums.

ii. **Audit & Accounting Fees (Sample #5 Ledger Acct 5-8008-99)**

When auditors audit the CFC they are combining a comparison of two campaigns years, the campaign just completed and the payouts from the previous year campaign. The

\$6,000 was related to both years and would be impossible to separate between the two campaigns as both payouts of the prior year campaign are happening at the same time the new campaign begins. The LFCC approves our budget for each year and this was an approved line item. Additionally, Audits of the CFC have always transpired in the spring and the actual costs cannot be known until it actually occurs. If we do not wait we risk not having enough to cover the actual expenses; or on the other hand, if less cost than budgeted, would create the need to issue some 2,000 checks for a nominal amount. Plus, this would put us in violation of federal disbursement requirements.

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NOT RELEVANT TO FINAL REPORT

DELETED BY OIG

NOT RELEVANT TO FINAL REPORT

B2: PCFO Application Not in Compliance:

The PCFO submitted, via email, on 10 Sept 2008 a Corrective Action Plan (CAP) dated 29 July 2008 that was accepted by the LFCC. This was submitted prior to the draft findings being released to ensure compliance with the 1 August deadline to have the LFCC review AUP findings. As part of this CAP, we annotated that we realize that the improper CFR references were stated (i.e. 950.202 and 203 rather than 950.403 and 950.603). We provided that we will ensure it is corrected in all future applications. Additionally, per the request of OPM (through Mary Capule), we agreed to amend the current contract on the record at the next LFCC meeting – which will occur in November 2008. As a result, we believe, we have already instituted a CAP to resolve this finding. Attached are the CAP and the email.

B3: Pledge Notification Letters Not Maintained.

The CFC of South Puget Sound has sent out Pledge and Donor reports in accordance with 5 CFR 950.601(e) and 5 CFR 950.901(i)(1). However, the finding was correct that paper copies of these records were not adequately maintained. As a result, when the Director moved on and his Computer System (with email) was turned off, we lost the electronic copy of these records. I have reattached an email communication from Earthshare (one of charitable agencies requested) to demonstrate that we do send out the reports. **We concur** that additional filing procedures need to be in place.

Beginning in March of 2008, we **self-implemented** a CAP to not only maintain the CFC Assistant generated reports in our email files (private folders), but we now save them to the hard-drive. Additionally, we maintain a non-electronic file that contains the Email log (a txt document) that shows when and to whom reports were sent, along with paper copies of kickback/error emails and the follow-up taken to ensure they received their reports. This occurred as part of the reporting for the 2007 campaign and will continue here on out.

C1: Cash Receipts and Disbursements:

We do not concur with the findings. There was a transfer from Armed Forces Bank to Key Bank in the amount of \$1,015.78. In fall of 2007, there was a remaining balance for the 2006 campaign (\$1,015.78) due to minimum balance requirements at Armed Forces Bank. If you note, the General Ledger description reflects this transfer. Armed Forces Bank is used during the campaign to deposit receipts. After the campaign money is transferred to Key Bank which is the disbursement account.

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NOT RELEVANT TO FINAL REPORT

C2: Pledge Loss Calculation:

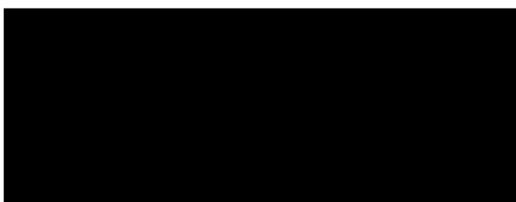
We concur with the recommendation.

C3: Pledge Card Error:

We concur that we had one incorrect pledge card and that there should have been multiple cards used rather than an attachment. We have already amended the Keyworker Resource guide to STRESS that separate cards must be used. This part of the process has also been included in the Loaned Executive training as well to make sure this is not overlooked. Finally, the individual who processes the pledge cards for us has been informed of the error and made aware to pull any such donor pledges so the donor can be engaged via their keyworker/coordinator.

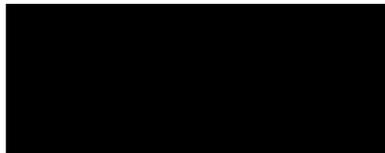
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NOT RELEVANT TO FINAL REPORT



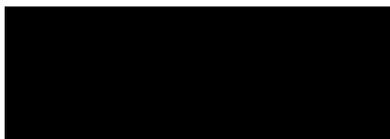
Director, CFC of South Puget Sound
c/o United Way of Pierce County

1st Endorsement



Chief Financial Officer
United Way of Pierce County

2nd Endorsement



Deputy Garrison Commander, Ft Lewis (Ret)
LFCC Finance Committee Chair

ATCHs

1. PDF of charges in question Rcd from Auditor w/ Auditor Notes – for Samples #4,5,6,7,9 and 10
2. Essential Software Development – Miscellaneous Professional fees (3pps) – i.e. #6 complete
3. 2006 Progress Report Copy, dated 21 Nov 06, for Batch 270 (2 pps)
4. 29 July 08 Corrective Action Plan submitted to OPM (3 pps)
5. Email correspondence with Mary Capule (OPM) regarding PCFO Contract and CAP
6. Earthshare email and reports
7. Mary Capule (OPM) email regarding EFT and verifications
8. 51642 Order Invoice from Vendors tracking-system