

The New CFC

2017 Admissions, Reporting and Structural Changes



WORKPLACE GIVING ALLIANCE

September 2016
Revised December 12, 2016

Workplace Giving Alliance
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The New CFC: 2017 Admissions, Reporting and Structural Changes

**Researched and written by the Workplace Giving Alliance*
September 2016
Revised December 12, 2016**

** The Workplace Giving Alliance is a trade-name for Human & Civil Rights Organizations of America, Inc. The Alliance includes 16 federations that share administrative staff to provide services to over 500 not-for-profit organizations in the Combined Federal Campaign and in state and municipal fundraising campaigns.*

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Letter from the CEO

Dear Colleague:

The Combined Federal Campaign (“CFC”) has been a fixture of the fundraising world for more than half a century. Now, under new regulations published by the government in 2015, the CFC is undergoing numerous changes which will affect how the campaign is administered, how charities will qualify, how donors will participate, how the money will flow, and more.

As a family of federations serving over 500 national and local charities, we have been tracking these changes carefully. The government has not finished its work to implement the new systems, but we think that enough is known for us to report to our members and others about what they can expect.

In this report, we focus on the following topics:

- why the government chose to rework the CFC,
- the new system of fees that the government will ask charities to pay in order to cover the costs of the campaign,
- the new CFC structure which will 1) replace the old “PCFO” system with a “Central Campaign Administrator” and “Outreach Coordinators” and 2) sharply reduce the number of CFC zones,
- revisions to the admissions process which will 1) reduce the paperwork requirements that charities face when they apply, 2) treat national and local charities almost the same, and 3) ease the requirement for audits for smaller charities, and
- revisions to the procedures for collecting pledges and distributing donations.

In the coming pages, we will present each major regulatory and administrative change to the program, comparing the way the campaign used to work with how it will work starting in 2017. We hope this proves useful to charities currently participating, charities interested in applying to the CFC, donors, federations, and others interested in the program. We welcome feedback and questions, and hope to be a source of information and support during this time of transition.

Sincerely,



Marshall Strauss, CEO
Workplace Giving Alliance
Salem MA
December 12, 2016

Our Sources

In preparing this report, we have relied primarily on information available from public sources including documents published by the U.S. Office of Personnel Management and the CFC-50 Advisory Commission.

As a family of CFC federations, we have come to understand much about how the CFC operates, and we have drawn on that store of knowledge as well. To the extent possible, however, we have sought to rely on published information that any interested member of the CFC community can find.

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Heart Health Charities, Inc.
Human & Civil Rights Organizations of America, Inc.
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LGBT Community Charities, Inc.
Mental Health and Addiction Network, Inc.
Partners for a Better World, Inc. (DBA: Haiti Aid)
Peace and Reconciliation Charities, Inc. (DBA: Military & Civilians United for Peace)
Village by Village, Inc. (DBA: Build a Better World)

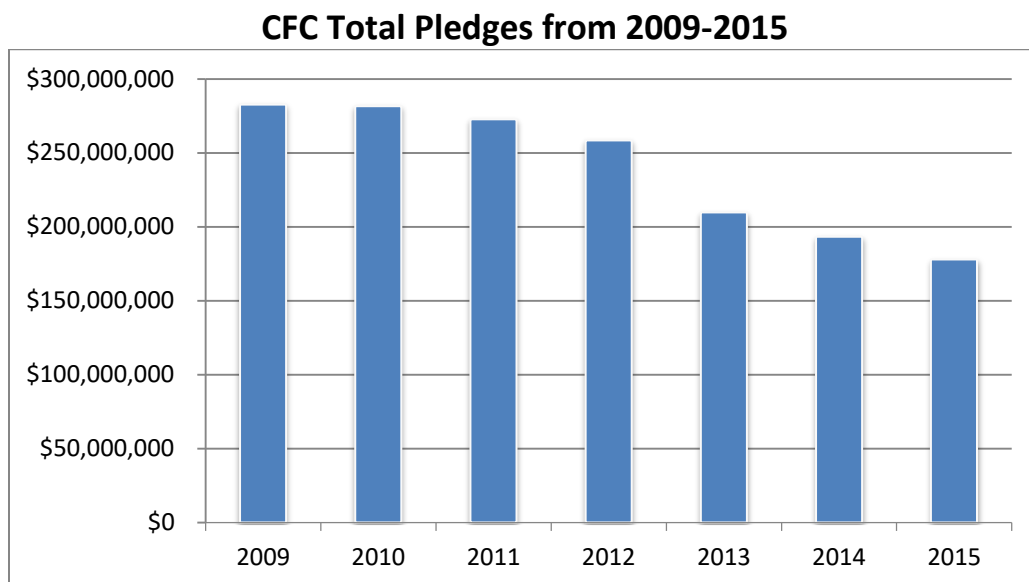
Why Change?

The Office of Personnel Management (“OPM”) has been seeking to change the operation of the Combined Federal Campaign for a number of years. The desire for change has reflected a variety of factors:

- declining participation within the federal workforce,
- the administrative burden of processing tens of thousands of charity applications each year,
- growing objections about the intrusion of campaign activities on the federal workforce at a time of increased budgetary pressure,
- a sense that the campaign was not using technology effectively and, as a result, was falling behind other methods of raising funds in support of charity,
- concerns that the old systems made it difficult for campaign administrators to handle pledge data and donated funds accurately, and
- the desire to cut CFC overhead by streamlining operations.

The year 2011 marked the 50th anniversary of the CFC. In the same year, OPM announced the formation of a CFC-50 Advisory Commission to review the program and suggest improvements in order to increase the CFC’s “accessibility, accountability, transparency and affordability.”

The CFC, while still raising a great deal of money for charities each year, has been in steady decline since 2009. The table below demonstrates the drop in total pledges to all participating charities between 2009 and 2015. As you can see, total pledges in the campaign declined 37% during those years.



Additionally, as the CFC-50 Advisory Commission reported, “despite increased marketing efforts, the number of federal workers who actually become donors as compared to the number solicited is showing a wider and wider gap.” Thus, not only are the total pledges in decline, but fewer federal employees are donating through the mechanism of the CFC.

In July 2012, the CFC-50 Commission recommended four sets of changes, dealing with:

- donor participation,
- CFC infrastructure,
- transparency and accountability, and
- a recent report by OPM’s Inspector General.

Responding to the Commission’s report, on April 8, 2013, OPM proposed new regulations for the administration of the CFC. Charities, federations, local administrators, federal employees and other interested parties submitted more than 1,300 comments in the weeks that followed. On April 16, 2014, OPM released its final rule, which made substantial changes to how the campaign would operate. The initial goal was to implement the new systems in time for the 2016 CFC, but the transition from old to new was so challenging that OPM delayed implementation for a year.

The new systems, as described in the new regulations, will now go into force – for the fall 2017 CFC.

The new CFC will handle differently how charities apply to the campaign, how donors search for charities they may wish to support, how donors pledge, and more. From the charity perspective, the changes will first be experienced later this fall as organizations apply to the 2017 campaign. One of the first changes they will notice is an upfront application fee. So we begin with that dimension of the new CFC.

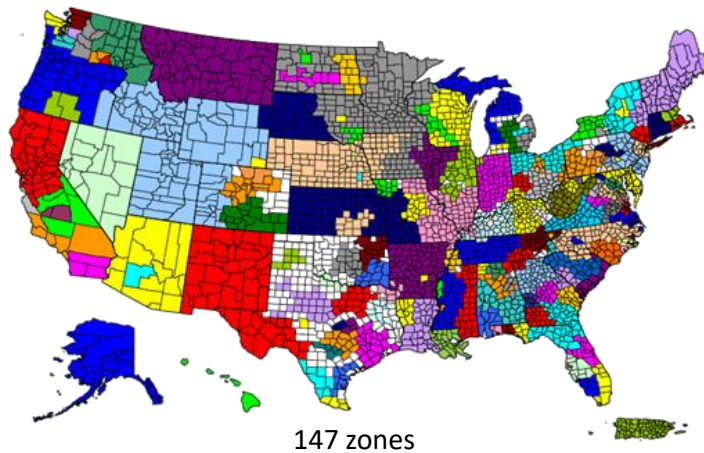
Paying for Campaign Operations – Old System

As of this writing, the “old CFC” is still in effect. The systems that charities and donors are familiar with will apply both to the solicitation of federal employees in the fall 2016 and to the distribution of their donations in the year or more that follows. Though these systems are still operating, we will describe them in the past tense – because they will soon go away.

Everyone understands that any fundraising effort will incur costs. The CFC is no exception, but while costs always existed, they were not easily seen. To understand how the CFC has been handling costs, one must first understand how the program has been administered.

The map below shows how OPM divided the nation into regional zones.

2015 (Old) CFC Zones

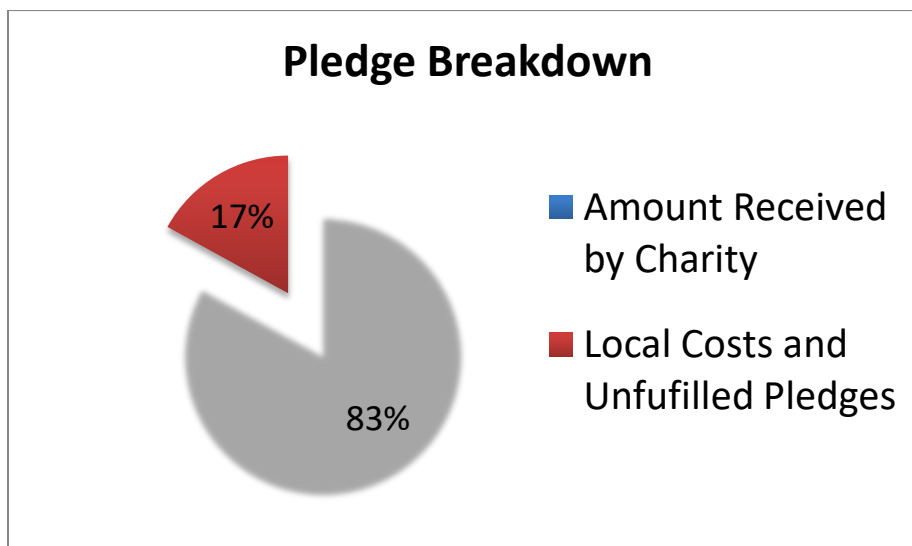


Each zone had its own administration. A not-for-profit organization (usually local to the region) was hired to run the program. The government named this not-for-profit a *PCFO*, which stands for Principle Combined Fund Organization. Under the supervision of a small group of federal volunteers drawn from the same region, the PCFO:

- processed applications from local charities that wished to participate in the program,
- printed a charity guide for federal employees,
- held events to publicize the campaign,
- collected pledges,
- processed donations, and
- reported campaign results to charities, federations and the government.

PCFOs hired staff, paid printing bills and covered other expenses by advancing the money until donations began to flow from employee paychecks. Since PCFOs helped move the donations from the paychecks to the benefiting charities, they were able to recover the money they had spent in the prior year by simply withholding a portion of the donated funds.

As a result, donations received by benefitting charities always amounted to less than was pledged. Some of the difference was due to unfulfilled pledges from workers who left their jobs, retired, died, or in some other way were unable to keep their promise to donate. A greater portion of the difference was the amount withheld by local administrators to reimburse their operating expenses.



Local budgeted expenses averaged about 14% of the total amount pledged in the 2015 CFC, but the actual cost of running each local campaign varied greatly from region to region. For example, the Coastal Georgia CFC and the Greater Southwest Texas CFC had similar pledge totals (roughly \$300,000). However, in 2015, the Coastal Georgia CFC's expense budget was about \$140,000 while the Greater Southwest Texas CFC's was about \$19,000. This tremendous variation was one reason OPM decided to centralize the administrative functions of the CFC.

The table below further illustrates the variance of local costs.

Local CFC Office / PCFO	2015 Total Pledges	Budgeted Cost	Percent of Pledges
Coastal Georgia CFC	\$325,729	\$139,406	42.8%
Midwest CFC	\$2,274,085	\$693,873	30.5%
Overseas CFC	\$6,854,747	\$1,555,387	22.7%
CFC of New York City	\$1,928,121	\$336,600	17.5%
Rocky Mountain CFC	\$3,259,179	\$447,200	13.7%
Chesapeake Bay Area CFC	\$5,883,110	\$668,372	11.4%
CFC of the National Capital Area	\$46,638,466	\$4,486,028	9.6%
Greater Southwest Texas CFC	\$308,850	\$18,800	6.1%

Campaign Costs and Charity Fees – New System

The new CFC regulations establish a different way of covering the costs of the campaign: by directly collecting fees from participation charities. Rather than having local CFC administrators recover money after the campaign solicitation period, OPM has created a set of three new fees:

- **Application Fee:** Beginning with the 2017 application period, OPM will charge an upfront, non-refundable *application fee*. For national charities applying independently, this fee will be \$570. For national charities applying under the umbrella of a federation, this fee will be \$400. For local charities applying independently, this fee will be \$340. For local charities applying under the umbrella of a federation, this fee will be \$255.

Note: It may behoove independent charities to consider applying with a federation, to save on the application fee as well to involve another set of eyes to ensure that application materials are accurate.

- **Listing Fee:** If the charity is approved for the campaign, it must then pay a *listing fee* in order to be included in the CFC Charity List. This fee will be due in the spring, and will be assessed according to an organization's total revenue as reported on the IRS Form 990 that accompanies its application.

National charities:

Tier III: Revenue less than \$250,000 will pay a \$370 listing fee

Tier II: Revenue \$250,000 or more, but less than \$1 million will pay a \$555 listing fee

Tier I: Revenue \$1 million and more will pay a \$2,270 listing fee

Local charities:

Tier III: Revenue less than \$250,000 will pay a \$20 listing fee

Tier II: Revenue \$250,000 or more, but less than \$1 million will pay a \$135 listing fee

Tier I: Revenue \$1 million and more will pay a \$635 listing fee

- **Distribution Fee:** OPM has reserved the right to assess a third fee if the first two appear inadequate to cover the projected cost of the campaign. This *distribution fee* will be assessed against actual donations. It will be similar to the fee model used by PCFOs to recover campaign costs – that is, proportional to the amount of money raised by the charity.

One of the government's stated goals for the new CFC has been to assure donors that 100% of donated funds go directly to charities. This is part of a wider effort to increase donor engagement and participation. Of course, if the government institutes the distribution fee, it will undermine this intent.

OPM's regulations require the agency to announce the fee amounts by the end of October each year, and the fee structure may change from year to year. The 2017 fees may be higher than in future years due to the upfront costs of implementing the new systems.

Federation Fees

In addition to changing the way the CFC covers its own costs, OPM has also addressed in its new regulations how federations will pay for their own services.

In the old CFC, federations typically withheld from CFC donations a fee to pay for the services they provided their members. OPM required that federations publish any such fee in their annual report. But as the Workplace Giving Alliance reported in 2013, the language describing fees was often hard to find or, once found, hard to understand.

In the new CFC, federations will no longer be permitted to withhold their fees from CFC donations. Here is the language from the new regulations:

Federations must disburse CFC funds to each member organization without any further deductions. Membership dues, fees, or other charges to member organizations must be assessed outside of the CFC disbursement process.

In addition to fees, charities will see other important changes in the CFC admissions process. Again, we describe the old system first and then the new.

Campaign Structure

All CFC stakeholder groups – participating charities, local administrators, federations and donors – will be affected in various ways by the new campaign structure set out in the new regulations. At the heart of this structure is a new Central Campaign Administrator (CCA), which will play a key role in admissions, pledging and financial transactions.

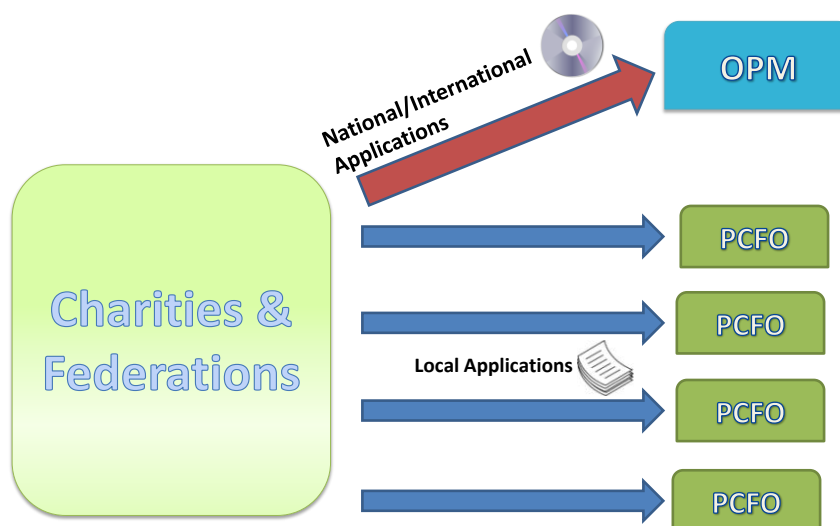
OPM is also substantially reducing the number of local administrative zones, from well over one hundred in the 2015 CFC to fewer than 40 in the 2017 CFC.

The Central Campaign Administrator (CCA)

As noted earlier, in the old CFC, OPM assigned a variety of administrative tasks to not-for-profit organizations operating at the community level. These PCFOs facilitated local admissions, promoted the campaign through kickoff events and other activities, distributed printed CFC charity guides, collected pledge cards, and handled funds moving from donor paychecks to charities.

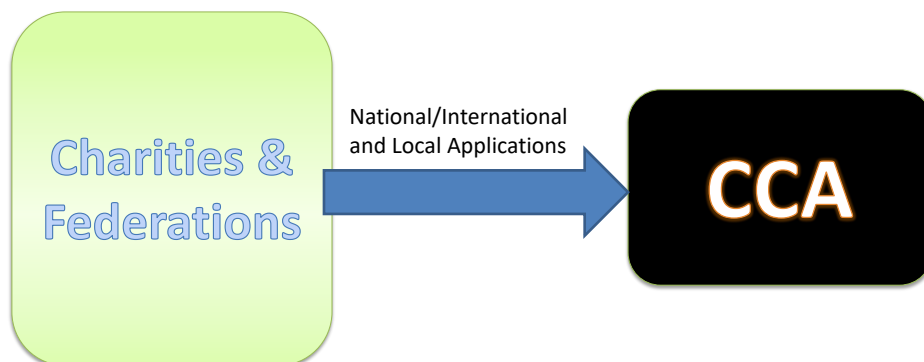
Beginning with the 2017 CFC, the PCFOs will no longer exist. Many of their functions will shift to the new CCA, itself a not-for-profit. Promotional activity such as kickoff events will remain in the communities, administered by newly created Outreach Coordinators (see next section).

In the past, charities submitted their application materials directly to the CFC or through a federation. Most groups chose to work through a federation for a variety of reasons. As the graphic below illustrates, applications for national and international groups went to OPM, while local materials went to the PCFOs.



In the new system, charities – national, international and local – will still be able to apply directly to the CFC or through a federation. If they apply directly to the CFC, they will submit material to a website operated by the CCA. The site has not yet been published.

We anticipate that most charities that applied through a federation in the past will continue to do so. The federations will continue to work with their members, reviewing their application materials. Federations will submit member applications to the CCA website.



Outreach Coordinators

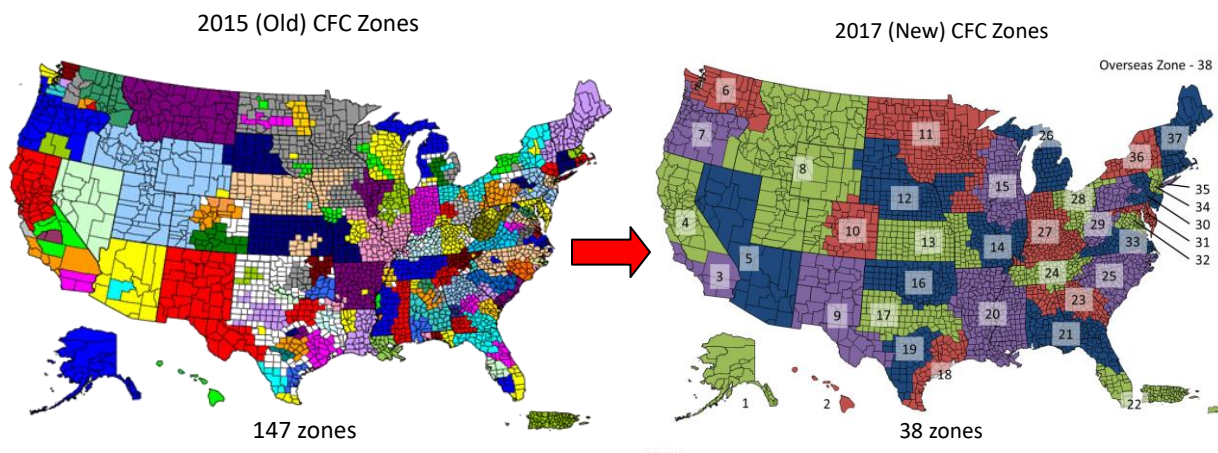
As noted, in the past, PCFOs were responsible for promoting the CFC among federal donors. In the future, this activity will be handled by Outreach Coordinators.

Outreach Coordinators, based around the country and overseas, will organize kickoff events, distribute printed CFC charity guides, collect pledge cards when donors use paper, and in other ways encourage employees to become involved in the campaign. Outreach Coordinators will release information concerning public campaign events, and federations will continue to be responsible for passing these notices along to their members.

Consolidation of Administrative Zones

As noted, OPM is substantially reducing the number of administrative zones, from 147 in the 2015 campaign to 38 in the 2017 campaign. Each zone will have an Outreach Coordinator.

The consolidation of zones will affect local charities in particular since geographically larger zones will translate into more "local" donors. For example, a local Massachusetts charity will see its home zone expand from a part of its home state to all of New England. This means that the printed charity guide that lists a Massachusetts charity's name will be available to many more donors.



Online Search in the CFC

Since the CFC began in 1961, CFC donors have been searching for charities using a printed charity guide that was distributed to all federal employees at the beginning of the campaign's solicitation period in September. The guide listed all local charities in the donor's geographic region, as well as all national and international charities in the program.

A key aspect of the print system was that no charity was favored year after year by virtue of its position in the book. The long list of eligible charities was broken into three sections: national, international and local. To minimize any potential visibility advantage, the CFC rotated the three sections each campaign year. So, if international groups were first in one year, the next year they would fall to the middle of the list, and then fall to the back of the book the year after that. Within each section of the list, the order of federations was also randomized.

Searching within the printed charity guide was traditional and familiar. There was a table of contents, in which all federations were listed. If donors were interested in "Medical Research Charities," they flipped to a specific page and would find the 25 or so charities listed under the umbrella of this federation. Donors could also search the alphabetic index for a specific charity. Or they could simply flip through the printed book and browse eligible charities.

In more recent years, the digital age has introduced a new way for CFC donors to find charities to support: online search.

In the old CFC, each PCFO managed its own online search. In a 2013 report on the topic of online search in the CFC, the Workplace Giving Alliance looked at the tremendous variance of results when searching for charities using different online search tools.

In one egregious case, searching for "art" resulted in a long list of environmental organizations, since the word "art" appears in the word "earth." Similarly, when searching for "cat," organizations appeared that worked in the field of "education." Clearly, there were some deep flaws with online search when it was not designed carefully and robustly.

In the new CFC, there will be only one online search tool, designed and implemented by the CCA, to be used by all federal employees. This search tool will be used for the 2017 campaign, but it has not yet been revealed.

Charity CFC Application Requirements

Application Components

In the old system, charities submitted the following items for review:

- an application form (often called the “Certifications”),
- a letter issued by the IRS affirming 501(c)(3) status (called an “IRS letter”),
- a description of their services (“Attachment A”),
- an IRS Form 990 or Pro Forma 990, and
- Audited Financial Statements (waived for smaller local charities).

In the new system, OPM will require charities to submit all of these items only once every three years. In the other two years, charities will be allowed to submit an abbreviated application consisting of only the following:

- an application form (the “Certifications”), and
- an IRS Form 990 or Pro Forma 990.

OPM will divide the pool of charity applicants into thirds. A charity required to submit a full application (all items) in 2017 will be able to submit an abbreviated application in 2018 and 2019. In 2020, that charity will again have to submit a full application.

Charities that did not participate in the CFC in the prior year, or are new to a federation, will have to submit a full application.

OPM has not yet announced which charities will be required to submit a full versus a partial application for the 2017 CFC. OPM has indicated it will release this information soon.

Audit Requirements

In the old system, there were separate audit requirements for national/international charities and local charities.

All national/international charities were required to have a full GAAS/GAAP audit. At the local level, an audit was not required for charities with revenue below \$100,000; such smaller groups only had to certify that they had adequate financial controls in place.

Starting with the 2017 CFC, audit requirements will be the same for all charities – national, international and local. Charities with revenue at or above \$250,000 will be required to submit a full GAAS/GAAP audit. Charities with revenue of at least \$100,000 but below \$250,000 will be allowed to submit a less costly CPA review.

Charities with revenue below \$100,000 – national, international or local – will only be required to certify that they have adequate financial controls.

Total Revenue (Per IRS Form 990)	GAAS/GAAP Audit	GAAS/GAAP Audit <u>or</u> Review	Certification that controls are in place
\$250,000 or More	✓		
\$100,000 - \$249,999		✓	
Less Than \$100,000			✓

Pledge Collection, Distribution & Reporting

The new CFC will largely run as before for donors, in that federal employees will make pledges to the charity or charities of their choice during the campaign solicitation period, and funds will be deducted from payroll throughout the year. However, the processes of pledging, the collection and aggregation of pledges, the system of reporting of pledges to charities, and the rules governing the distribution of funds will all be changing under the new regulations.

Under the old system, additional CFC funds could be raised at local CFC events and fundraisers. Donors could attend such events and make one-time contributions by cash or check outside of the usual payroll deduction system. Some local CFC offices allowed for one-time credit card donations as well. In the new system, CFC fundraisers are prohibited. Local events are still allowed, but funds will not be collected directly at these events. Additionally, cash contributions are completely eliminated. Checks are accepted but processed electronically. Credit cards will now be accepted universally for one-time donations.

In the old CFC, only active federal employees – civilian and military – were allowed to contribute. The government is moving toward allowing contractors, credit union employees, and retired federal employees to be able to make one-time contributions via electronic means.

Historically, the PCFOs published the CFC charity guide. This paper booklet contained the legal name, trade name, website address, phone number, 25-word mission statement, NTEE codes (categorizing the charity by theme), and AFR (overhead) percentage of every participating national/international charity, as well as all of the local charities in the area. (A sample of a print charity guide is shown below.) In the past several years, as already noted, some local CFCs have offered a searchable online Charity List, in addition to an option to pledge online instead of using paper pledge cards.



Build a Better World Federation and Member Organizations

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Under the new regulations, the paper CFC charity guide and paper pledge cards will only be available for a transition period of five years. After that, donors will be required to search for and pledge to charities online using tools published by the Central Campaign Administrator.

In the old CFC, each PCFO individually processed pledges, reporting the data to various federal payroll offices. Money was withheld from donor paychecks, sent to the PCFO, and forwarded to charities and federations. Pledge data was collected during the campaign period and provided to charities and federations after the campaign period was complete.

In the new CFC, pledges will be processed by the CCA. Federal payroll offices will provide detailed reports and electronic funds transfer of donations to the CCA, which will distribute funds to charities designated by donors (or, in some cases, to federations, which will distribute the funds to charities).

Campaign Solicitation Period

In the old CFC, the solicitation period began on September 1 and ended on December 15, unless OPM allowed for an extension. Federal donors pledged at any point during the season; donations were deducted from paychecks beginning in January after the solicitation period. Starting with the 2017 campaign, under the new regulations, the solicitation period will be set annually by the director of OPM. The new period can start no earlier than September 1 and end no later than January 15. Newly hired employees will be able to pledge outside of the official campaign period, within 30 days of their initial start date.

For the 2016 campaign, the solicitation period is September 1 to December 15, though OPM is allowing a handful of local zones to solicit until the end of December.

Conclusion

As you can see, there are various knowns and unknowns about the new Combined Federal Campaign. We welcome questions and concerns as we strive to be a resource and ally for our member charities, other charities interested in the CFC, and other parties concerned about the future of the largest workplace giving campaign in the world.