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Final Audit Report

Subject:

AUDIT OF THE 2005 THROUGH 2012 COMBINED FEDERAL CAMPAIGNS ADMINISTERED BY THE METROPOLITAN ARTS PARTNERSHIP SACRAMENTO, CALIFORNIA

Report No. 3A-CF-00-13-051

Date: July 10, 2014

AUDIT REPORT

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for Audits

EXECUTIVE SUMMARY

AUDIT OF THE 2005 THROUGH 2012 COMBINED FEDERAL CAMPAIGNS ADMINISTERED BY THE METROPOLITAN ARTS PARTNERSHIP SACRAMENTO, CALIFORNIA

Report No. 3A-CF-00-13-051 **Date:** July 10, 2014

The Office of the Inspector General has completed an audit of the Combined Federal Campaigns (CFC), as administered by the Metropolitan Arts Partnership (MAP) from 2005 through 2012. The following CFCs represent those administered by MAP during that time frame:

- 2005 through 2007 – Sacramento Area CFCs,
- 2008 – Bay Area CFC,
- 2008 – Sacramento/Northern California CFC, and
- 2009 through 2012 – Norcal CFCs.

MAP, located in Sacramento, California, served as the Principal Combined Fund Organization (PCFO) for each of the above campaigns. The main objective of the audit was to determine if the CFCs administered by MAP were in compliance with Title 5, Code of Federal Regulations, Part 950 (5 CFR 950), including the responsibilities of both the PCFO and the Local Federal Coordinating Committee (LFCC). The audit identified five instances of non-compliance with the regulations (5 CFR 950) governing the CFC and it questions $2,011,529.

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

BUDGET AND CAMPAIGN EXPENSES

- **Administrative Expense Overcharges** **$1,899,465**

  MAP charged the 2005 through 2012 CFCs $1,899,465 in administrative expenses that exceeded expense amounts reported in its general ledger. Of this amount, $770,216 is comprised of unallowable costs that exceeded 110 percent of the approved campaign budgets.

- **2011 Campaign Expenses** **$101,811**

  MAP charged the 2011 campaign $101,811 in expenses that were either unsupported, unallowable, or improperly allocated.

CAMPAIGN RECEIPTS AND DISBURSEMENTS

- **Outstanding Check Procedures** **$7,653**

  MAP's policies and procedures for outstanding checks do not adhere to the OCFC's requirements. In addition, MAP has not reissued or redistributed $7,653 in outstanding checks related to prior campaigns.

- **Pledge Form Errors** **$2,600**

  Our review identified 12 pledge forms with a total of 7 types of errors, 1 of which resulted in a charity not receiving a disbursement of $2,600.

- **CFC Funds Not Maintained in Interest-Bearing Accounts** **Procedural**

  MAP did not maintain CFC funds in an interest-bearing account during its administration of the 2005 through 2012 campaigns.

ELIGIBILITY

Our review of the LFCC membership determined that all those serving were Federal employees.

FRAUD AND ABUSE

While our review of MAP's policies and procedures for fraud and abuse indicated that they were sufficient to detect and deter potential fraud and abuse activities, the nature of the deficiencies identified during this audit, as explained in the Audit Findings and Recommendations section of this report, weakened the effect that these policies and procedures were meant to have in protecting CFC funds from instances of fraud and abuse.

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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) administered by the Metropolitan Arts Partnership (MAP) from 2005 through 2012. The audit was performed by the U.S. 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 2012, it consisted of 184 separate local campaign organizations located throughout the United States, including Puerto Rico and the Virgin Islands, as well as overseas locations. The Office of the Combined Federal Campaign (OCFC) 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.

Each CFC is 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; encouraging Federal agencies to appoint Loaned Executives (Federal employees who are temporarily assigned to work directly on the CFC) to assist in the campaign; ensuring that employees are not coerced to participate in the campaign; and acting upon any problems relating to noncompliance with the policies and procedures of the CFC.

The primary goal of the PCFO is to administer an effective and efficient campaign in a fair and even-handed manner aimed at collecting the greatest amount of charitable contributions possible. Its responsibilities include training loaned executives, coordinators, employee keyworkers and volunteers; maintaining a detailed schedule of its actual CFC administrative expenses; preparing pledge forms and charity lists; distributing campaign receipts; submitting to an 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; consulting with federated groups on the operation of the local campaign; and for establishing and maintaining a system of internal controls.

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.

This report represents the first audit of MAP as a PCFO.

The initial results of our current audit were discussed with MAP and LFCC officials during our onsite visit, which occurred from June 17 through 27, 2013. Due to the shutdown of the Federal Government in October 2013, and the unavailability of MAP personnel at the end of September 2013 (prior to the shutdown), an official exit conference was not held. However a summary of findings was provided to MAP and the LFCC on September 26, 2013. A draft report was provided to MAP and the LFCC for review and comment on September 27, 2013. Their responses to the draft report were considered in preparation of this final report and are included as Appendices.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The primary purpose of our audit was to determine if the CFCs administered by MAP were in compliance with 5 CFR 950, including the activities of both the PCFO and the LFCC.

Our specific audit objective for the 2005 through 2012 campaigns as administered by MAP was:

Campaign Receipts and Disbursements

- To determine the amounts received and disbursed by MAP for each campaign and if any amounts were inappropriately reimbursed to MAP or if any amounts remain undisbursed to charities.

Additionally, our audit objectives for the 2011 campaign were as follows:

Budget and Campaign Expenses

- To determine if MAP charged the campaign for interest expenses and if the appropriate commercial loan was used.
- 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 incoming pledge monies (receipts) were allocated to the proper campaign and if the net funds (less expenses) were properly distributed to member agencies and federations.

Eligibility

- To determine if any non-Federal employees or retirees were members of the LFCC.

Fraud and Abuse

- To determine what policies and procedures MAP has in place related to detecting and preventing fraud and abuse and if they are adequate.

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 through 2012. MAP, located in Sacramento, California, served as the PCFO during each of the campaigns. The audit fieldwork was conducted at MAP's office from June 17 through 27, 2013. Additional audit work was completed at our Washington, D.C. and Cranberry Township, Pennsylvania offices.

MAP received campaign pledges, collected campaign receipts, and incurred campaign administrative expenses for the 2005 through 2012 campaigns as shown below.

Campaign Year	Total Pledges	Total Receipts	Administrative Expenses
2005	$796,155	$702,139	$109,704
2006	$778,268	$740,335	$211,065
2007	$775,746	$723,491	$263,197
2008	$4,699,821	$4,137,050	$603,816
2009	$4,364,310	$3,802,231	$679,153
2010	$4,262,925	$3,898,425	$847,903
2011	$4,095,204	$3,730,015	$633,997
2012	$4,093,113	Unknown at time of report	$624,216

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 form entries, and the distributions of campaign contributions and related bank statements, showed 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 Memoranda issued by the OCFC.

To accomplish our objective concerning CFC receipts and disbursements related to the 2005 through 2012 campaigns, we performed the following procedures:

- Reviewed all CFC banking and letter of credit statements to determine the total amount of CFC funds actually received and disbursed by MAP.

- Reviewed the MAP general ledger to determine the amount of expense charged to the CFC through direct and indirect cost methods.

- Compared the CFC expense as reported in the general ledger to the expenses reimbursed directly from CFC funds.

- Compared the total expenses reimbursed directly from CFC funds to the maximum allowable expense per the regulations (110 percent of budget).

In regard to our objectives concerning the 2011 campaign's budget and campaign expenses, we performed the following procedures:

- Traced and reconciled amounts on MAP's Schedule of Actual Expenses to its general ledger.

- Reviewed MAP'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 93 expense transactions (totaling $250,746) from a universe of 428 expense transactions (totaling $439,148). The transactions were selected based on high dollar amounts and amounts exceeding a set threshold. We reviewed the sample to ensure that it included at least five allocated expenses.

- Reviewed the LFCC meeting minutes and verified that the LFCC authorized MAP's reimbursement of campaign expenses.

- Compared the budgeted expenses to the actual expenses to determine if the actual expenses exceeded 110 percent of the approved budget.

To determine if the 2011 campaign's receipts and disbursements were handled in accordance with CFC regulations, we reviewed the following:

- A judgmental sample of the 75 highest dollar pledge forms (totaling $331,342) out of a universe of 14,307 pledge forms (totaling $4,095,820) from MAP's 2011 campaign pledge form detail schedule and compared the pledge information from the schedule to the actual pledge forms. We verified that our sample included all types of donations (i.e., cash, designated funds, and undesignated funds) and at least five pledge forms where the donor chose to release their personal information. Additionally, we also randomly sampled 51 electronic pledges from the same pledge universe and traced them back to the PCFO's pledge form tracking system to make sure the information was properly input into the system. We sampled the first two individuals from each letter of the alphabet, except for the letter x, plus one individual who complained that her pledge had not been disbursed to the designated charity.

- A judgmental sample of 10 distribution checks (totaling $1,500,369) for all agencies and federations with total disbursements greater than $100,000, including MAP, out of a universe of 364 federations and organizations, totaling $3,376,638, to verify that the appropriate amount was disbursed in a timely manner.

- One-time disbursements to verify that MAP properly calculated pledge loss (difference between amounts pledged and actually received) and disbursed funds in accordance with the ceiling amount established by the LFCC.

- MAP's most recent listing of outstanding checks to verify that it was following the guidance issued by the OCFC.

To determine if the LFCC and MAP were in compliance with CFC regulations regarding eligibility for the 2011 campaign, we reviewed the LFCC member listings to verify that all members were active Federal employees.

Finally, to determine if the policies and procedures related to the detection and prevention of fraud and abuse were adequate, we reviewed MAP's responses to our fraud and abuse questionnaire.

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

As a result of the extreme carelessness demonstrated by MAP in its handling of its finances, as made clear in the following findings related to the CFC during its administration of various campaigns from 2005 through 2012, we strongly suggest to OPM's OCFC that it not be considered as the PCFO for any campaigns in the future.

MAP was not selected to continue as the PCFO following the conclusion of the 2012 campaign. Therefore, we have only included recommendations to MAP for those areas for which it has the responsibility to address in its former role as the PCFO.

In its response to the draft report, MAP made comments regarding itself and complications related to the audit that were not directed at any particular finding or recommendation that we feel are important and should be included and addressed. Therefore, those comments and our response will follow immediately and precede the findings.

PCFO Comments:

MAP acknowledges in its response that it made a number of procedural errors. Specifically, it acknowledges the following:

- That it was not fully familiar with the regulations as they relate to the CFC;
- That it was and is a small organization and the actions and activities of its accounting personnel "indicate a lack of business and accounting sophistication";
- That it did not keep formal records of actions or approvals of CFC matters. This includes "approval of budget overruns though there is strong indication that such approvals were granted";
- That one of its prior accountants failed to apply Generally Accepted Accounting Principles' (GAAP) cost accounting allocation methods to allocate cost incurred for the CFC and to its other charitable activities; and,
- That "accounting entries regarding distributions from and repayment of a certain letter of credit obtained to support Campaign expenses were erroneously made."

MAP states that the "procedural breaches did not cause damage to the Campaigns or their charitable recipients nor did they lead to inappropriate Campaign expenditures, and they were remedied after they were identified by the OIG during its audit."

MAP also noted that it has a small net worth remaining to support its charitable activities in the Sacramento area and that any financial penalties would deprive other charitable recipients from receiving valuable services and could cause it to go out of business. Specifically, MAP indicated that its principal asset is the building housing its office space.

MAP additionally stated that there were many complications that led the OIG to make a series of mistaken assumptions and erroneous recommendations.

Specifically, the mistakes were related to the following:

- A simultaneous audit of eight years of CFC campaigns is outside of the CFC regulations (5 CFR 950.604) which state that the PCFO and other participants in the CFC "shall retain documents pertinent to the campaign for at least three completed campaign periods."

- That MAP "used at least six different accountants during the eight audited years and its books and records reflect varying skill levels and understanding of CFC rules, as well as varying agendas. In some cases, very substantial amounts were left unallocated by an accountant who apparently did not understand the division between MAP's non-CFC and CFC activities, and this failure to allocate caused your staff to disallow all such amounts in the Draft Report until appropriate allocations to the CFC could be undertaken. As explained below, such allocations now have been made."

- That MAP's co-founder and Executive Director, who was the most intimately involved in the operations of the CFC and MAP's interaction with the LFCC and could have answered many of the questions raised in our audit, died in January of 2013. As a result of this untimely death, MAP stated that it has very little institutional memory to draw upon to determine why certain steps were taken and where relevant records may be stored.

- That the calculations of MAP's unsupported and unallowable expenses rely primarily on bank statements, which only show when revenue and expenses were credited or debited to the CFC account, instead of detailed accounting records categorizing the expenses into allowable classes. As a result, the OIG disallowed a significant amount of expenses merely because of the inadequacy of MAP books and records and not because such expenses were inappropriately incurred.

OIG Response:

MAP's comments above demonstrate clearly our comment in the opening paragraph of this section. The fact that it acknowledges that it was not familiar with the regulations which govern the very program that it was administering and that it has "a lack of business and accounting sophistication" support our suggestion to not have MAP re-admitted as PCFO. Based on its acknowledgements, we feel that MAP should never have been selected to run any campaigns.

Later in this report we specifically address how MAP caused quantifiable damages to those charities that participated in the CFC, particularly those of the 2012 campaign which appear to have received much less than what was designated to them.

It should also be noted that MAP incorrectly states in its initial response (which it repeats in its later response of February 14, 2014) that the building which housed its offices is its principal asset. In its February 14, 2014 response, MAP acknowledges that the building was purchased with CFC monies. As such, the building is an asset of the CFC and not of MAP.

MAP stated that unique complications led to our audit making a series of mistaken assumptions and erroneous recommendations. We do not agree. Our specific comments to MAP's bulleted complications follow:

- Extended Audit Scope: MAP is correct in stating that our extended audit scope is beyond the three campaign retention period for retaining documents pertinent to the campaigns under review. However, during our audit MAP provided us with complete general ledger information and complete banking information for all years covered by the eight campaigns under review. The reliability of the general ledger information is questionable, but it was provided. The 2011 campaign expenses reviewed in detail were within the required retention period and any that were not properly supported were questioned. As a result, although the period covered by this audit was extra-ordinary, we were provided the documentation necessary to perform our audit work and draw appropriate conclusions.

- MAP's Use of Multiple Accountants: MAP has stated that a specific accountant did not follow GAAP cost accounting allocation methods to allocate costs to the CFC and non-CFC activities and that this and the use of multiple accountants over the audited campaigns led to our findings. This is most likely the case. However, it should be noted that in MAP's response it did not indicate that allocations were not done for a certain period of time, but for the entire time frame covered by our audit (eight campaigns). This means that absolutely no cost was allocated by MAP, ever, or at least until after our draft report was issued. MAP also states that allocations have now been made, but as our response later in this report will show, it provided no relevant documentation to support its claim.

- MAP's Staffing Situation: We understand that MAP does not have the resources to be fully staffed. However, for CFC purposes one staff member is most likely sufficient to carry out whatever CFC duties remain, if any.

- Death of MAP's Executive Director: It was extremely unfortunate that the only person with intimate knowledge of MAP's CFC operations died. However, this further sheds light upon the apparent mismanagement of the campaigns where one individual made every important decision and did not maintain records of those decisions.

- Calculations of MAP's Unsupported and Unallowable Expenses: This is covered in greater detail later in the report. However, we relied primarily on the bank statements because in MAP's own words its financial records were "unfortunately incomplete and have been incorrectly kept." As a result, we had to utilize the data that was reliable, the bank statements.

A. BUDGET AND CAMPAIGN EXPENSES

1. Administrative Expense Overcharges $1,899,465

MAP charged the 2005 through 2012 CFCs $1,899,465 in administrative expenses that exceeded expense amounts reported in its general ledger. Of this amount, $770,216 is comprised of unallowable costs that exceeded 110 percent of the approved campaign budgets.

Our review of the expense transactions identified the following problems:

- MAP paid CFC expenses directly out of the CFC funds rather than absorbing the expenses itself and requesting reimbursements;

- MAP did not properly match expenses to the campaign to which they belong;

- MAP did not submit an approval request for, nor did the LFCC authorize, reimbursement;

- The amounts expensed by MAP for 2005 through 2012 exceeded the total CFC expenses reported in its general ledger; and,

- The total CFC expenses reimbursed were greater than the maximum allowable cost (110 percent of the approved budgets).

<u>CFC Expenses Paid Directly From CFC Funds</u>

From the inception of its administration of the CFC, MAP has handled the payment of CFC expenses incorrectly and in violation of the regulations.

5 CFR 950.105(d)(8) states that it is the PCFO's responsibility to keep and maintain CFC financial records and bank accounts separate from its own internal records and bank accounts.

Additionally, 5 CFR 950.106(b) clearly states that the PCFO "may absorb the costs associated with conducting the campaign from its own funds and be reimbursed, or obtain a commercial loan to pay for costs associated with conducting the campaign."

Finally, 5 CFR 950.106(b) states that the PCFO may only recover, or be reimbursed for, campaign expenses from receipts collected for that campaign period and those expenses cannot be reimbursed from prior or future campaign funds.

To reiterate the CFC regulations above, the PCFO may either pay for all expenses out of its corporate funds and be reimbursed at a later date, or it may obtain a commercial loan to pay for the costs and then pay the loan (plus interest) out of CFC funds. However, over the course of its administration of the CFC, MAP did not adhere to the regulations in regards to campaign expenses.

From 2005 through July 2010, MAP paid for all CFC-related expenses directly out of its CFC-dedicated bank account. It did obtain a line of credit (LOC) for the 2005 and 2006 campaigns. However, MAP did not use the LOC to pay for CFC-related expenses. Instead, it withdrew funds from the LOC and placed them in the CFC-dedicated account (a violation of 5 CFR 950.105(d)(8), as the LOC is a PCFO account and not a CFC account) to offset the expenses being paid directly out of the account. It then paid off the LOC from CFC funds. This method of expense payment is incorrect because the only acceptable transactions within a CFC-dedicated account are: CFC deposit/receipts, CFC distributions to charities, and reimbursements to the PCFO for CFC expenses (a lump sum reimbursement).

Beginning in July 2010, MAP changed its process for paying CFC expenses. At this point it began transferring large amounts from the CFC-dedicated account to its own accounts and most CFC expenses were paid out of the PCFO's accounts. However, some CFC expenses were still paid directly out of the CFC account through July 2013. This method of payment is, in essence, the same as before with the added transfer of monies to MAP to fund the expense payments.

Expenses not Matched to the Proper Campaign Period

MAP did not properly match campaign expenses to the gross receipts of the campaign to which they were related.

5 CFR 950.106(a) states that the PCFO shall only recover its expenses as approved by the LFCC which reflect the actual costs of administering the campaign and that the reimbursement should not exceed 110 percent of the approved budget unless approved by OPM.

Additionally, 5 CFR 950.106(b) states that the PCFO may only recover, or be reimbursed for, campaign expenses from receipts collected for that campaign period and those expenses cannot be reimbursed from prior or future campaign funds.

During MAP's administration of the CFC it did not ensure that expenses were recovered from the receipts of the campaign to which they belonged. Expenses for CFCs are typically incurred on the front end of the campaign before any funds are received by the PCFO. This is why the regulations instruct the PCFO to either absorb the costs or pay the expenses via a commercial loan. However, MAP paid the CFC expenses as they were incurred directly from CFC funds for the period 2005 through July 2010. This practice caused MAP to charge the prior/earlier campaign for future campaign expenses (i.e., 2005 campaign funds were used to pay 2006 campaign expenses).

When MAP began its process of transferring funds to its own account in July 2010, it continued to charge prior campaigns for future campaign expenses. However, now the effect on the campaigns was quantifiable. For example, for the 2011 campaign, MAP made lump sum withdrawals from the CFC account of $530,000 for CFC expenses, of which $500,000 (94 percent) was withdrawn between April 12, 2011 and December 22, 2011. During this same time frame, MAP had only received $157,803 in receipts related to the 2011 campaign. As a result, the 2010 campaign funded $342,197 of the 2011 campaign's expenses.

This same process was used for the 2012 campaign. As part of this process MAP also clearly reimbursed itself for the budget amount approved by the LFCC and not for actual campaign expenses, as required by the regulations. When discussed with MAP it seemed as if it felt that it was due the budgeted amount and did not understand that it should only be reimbursed for actual expenses incurred.

Approval of Reimbursement

MAP did not request approval for, nor did the LFCC approve, the reimbursement of campaign expenses throughout MAP's administration of the CFC.

5 CFR 950.106(a) states that the PCFO shall only recover its expenses as approved by the LFCC which reflect the actual costs of administering the campaign and that the reimbursement should not exceed 110 percent of the approved budget unless approved by OPM.

A review of the LFCC meeting minutes during the scope of our audit and discussions with both MAP and the LFCC determined that MAP never requested approval for expense reimbursements from the beginning of its administration of the CFC. Additionally, our review of the LFCC meeting minutes found that no LFCC meetings were typically held between January and July. This is of concern because many important LFCC decisions must be made during this time period (approval of expense reimbursement, approval of one-time disbursements, and approval of local charity applications and appeals).

MAP stated that it provided the LFCC with expense summaries at each meeting and believed that the approval of the budget gave it the authority to reimburse itself for the entire budgeted amount. The LFCC never sought to approve MAP's reimbursement because it did not understand that this was a requirement.

Recommendation 1

We recommend that the OCFC ensures that the LFCC institutes procedures to review and approve the future PCFO's reimbursement of actual CFC expenses.

LFCC Comments:

The LFCC disputes portions of the finding, but does concur with the recommendation.

Specifically, the LFCC disputes the statement that MAP "did not request approval for, nor did the LFCC approve, the PCFO's reimbursement of campaign expenses throughout the PCFO's administration of the CFC." The LFCC feels that this is inaccurate because according to it, past "meeting minutes show that MAP as PCFO did submit requests for, and the LFCC did discuss and authorize many, while not all, campaign-expense reimbursements." Furthermore, it stated that "LFCC practice was not to request or review each reimbursement receipt, but to review the 'Statement of Revenue &

Expenses,' a summary financial report ... which tracked actual expenses versus approved budget."

The LFCC stated that it has selected a new PCFO for the 2013 campaign and that its meetings include "detailed discussion of expected expenses, as well as review of provided financial documents including receipts for campaign expenses to be reimbursed." The LFCC suggested that specific financial training and written guidance be provided to all LFCCs (especially those new to their positions) in regards to financial review and common problem areas.

OIG Response:

We accept the LFCC's response. However, we must clarify the reasoning for this recommendation and the need for the LFCC to institute these procedures immediately.

This recommendation was made because we did not identify any mention of the LFCC authorizing the reimbursement of PCFO expenses in the LFCC meeting minutes provided to us for review. Furthermore, discussions with both the PCFO and LFCC indicated that neither party was aware that there was a need for approval. As stated in the finding, discussions with MAP actually confirmed that it felt approval of the budget gave it the authority to reimburse itself the full amount. Hence, the necessity to immediately implement procedures to approve future disbursements of PCFO campaign expenses.

Additionally, it must be pointed out that the LFCC's response does not state that, going forward, it would authorize PCFO reimbursements, but rather that there would be "detailed discussion of expected expenses, as well as review of provided financial documents including receipts for campaign expenses to be reimbursed." It is the LFCC's responsibility to approve any reimbursements that are received by the PCFO. As part of this process the PCFO should approach the LFCC with a proposed expense reimbursement for the campaign that is supported by financial information and supporting documentation (if necessary). The LFCC should then document its review (not just receipt) of this information and its vote to approve all or part of the proposed reimbursement.

Recommendation 2

We recommend that the OCFC ensures that the LFCC understands all of its responsibilities and that it meets regularly to supervise the PCFO and the progress of the campaign.

LFCC Comments:

The LFCC again expressed the need for formal training for all LFCC members and written guidance in regards to its responsibilities. The LFCC states that it did meet regularly with MAP, and that it was provided regular campaign financial reports of expenses. It also stated that it was aware of continued contact with MAP to address ongoing activity, such as the Admissions Chair's involvement with charity applications, approvals, denials, and appeals.

The LFCC disagrees with MAP's comments that "neither MAP nor the LFCC kept formal records of actions or approvals, including approval of budget overruns though there is strong indication that such approvals were granted." On the contrary, the LFCC states that in its meetings with MAP it was provided records which show that they "brought the campaign in on budget."

OIG Response:

We do not agree with the LFCC's response that it met regularly with MAP. Our review of the LFCC meeting minutes related to the 2011 campaign found that the only meetings held were from August through December 2011. This does not constitute "regular" meetings. When questioned regarding this, MAP concurred that there were no meetings beyond that period.

Based on responses we've received from MAP and the LFCC, it appears that both parties (the MAP Executive Director and LFCC Chair) communicated via phone and/or email over the period when no meetings were occurring and felt this to be sufficient. This simply is not the case as decisions related to the CFC are not made by the LFCC Chair (or any other individual members of the LFCC) and the PCFO in a vacuum. Any decisions discussed must be approved by the LFCC as a body and these decisions should be documented in the minutes. Any "decisions" made in conference between the LFCC Chair (or other LFCC members) and the PCFO are not binding without a vote by the LFCC as a body no matter if they were considered formal or informal decisions or approvals at the time by either party.

The LFCC states that there should be more formal training for all LFCC members and written guidance. It should be noted that OPM's OCFC holds yearly conferences to which all LFCCs and PCFOs are encouraged to attend. At those conferences, the OCFC stresses the responsibilities of both the PCFO and LFCC and is available to them if there are questions throughout the campaign period.

Unsupported Costs

The amounts reimbursed to MAP for CFC expenses exceeded the CFC expense totals reported in its general ledger by $1,899,465.

5 CFR 950.106(a) states that the expenses reimbursed to the PCFO should reflect only the actual costs of administering the campaign and that those costs are limited to 110 percent of the approved budget (unless approved by OPM).

During our review we requested a copy of MAP's general ledger detailing the actual expense of its administration of the 2005 through 2012 campaigns. The information provided by the PCFO proved to be unreliable as the CFC costs reported in the general ledger appeared to be incomplete. Therefore, we requested copies of all CFC banking statements from the start of the first campaign administered by MAP in 2005 through July 2013 and identified all expense-related transactions (excluding transfers between CFC accounts, LOC payments, and charity distributions) by campaign period. We then compared these amounts to the amounts for each campaign in the approved budgets and the CFC cost reported in MAP's general ledgers. This review found that the total expenses paid out of CFC funds exceeded the CFC costs reported in the PCFO's general ledger by $1,899,465.

Unsupported Costs			
	Reimbursed Expenses	MAP GL Cost	Unsupported Costs
2005	$109,704	$70,145	$39,559
2006	$211,065	$98,152	$112,913
2007	$263,197	$85,907	$177,290
2008	$603,816	$292,783	$311,033
2009	$679,153	$203,416	$475,737
2010	$847,903	$438,247	$409,656
2011	$633,997	$439,148	$194,849
2012	$624,216	$445,788	$178,428
Totals			**$1,899,465**

As a result of these excess reimbursements the CFC's member charities are due $1,899,465 from MAP.

Recommendation 3

We recommend that the OCFC and LFCC direct MAP to reimburse the CFC $1,899,465 for unallowable and unsupported CFC costs and to reimburse the charities of the CFC by that amount.

In its response to our draft report, MAP's comments to this finding were extensive. In order to enhance readability, our final report breaks up MAP's comments to allow our responses to coincide with its comments. Our responses immediately follow each separate PCFO comment.

PCFO Comments – Recommendation as a Whole:

MAP stated that the amounts questioned do not reflect the reality of its operations, and that it was actually under-reimbursed by $79,552. MAP stated that the questioned costs were in error due to the fact that the OIG merely totaled "all of the distributions from the CFC bank statements without investigating the specific attributes of or reasons for the distributions."

OIG Response:

We disagree with MAP's position. Throughout its response to the finding MAP did not substantiate its claim that it was "under-reimbursed by $79,552." As a result, we continue to contend that MAP took excessive funds as reimbursements for unsupported and unallowable CFC expenses.

It should be noted that the audit approach of relying upon "all of the distributions from the CFC bank statements" during the review of MAP as the PCFO was driven by the quality of the records that MAP maintained. Those records according to MAP's own response were "unfortunately incomplete and have been incorrectly kept." As a result, we could not place any reliance upon their accuracy and chose to painstakingly recreate the records from the banking statements.

Additionally, MAPs characterization that our auditors did not investigate the "specific attributes of or reasons for the distributions" is false. The spreadsheets used to compile the banking statement information were provided to MAP during the on-site visit with the express purpose of identifying those items which were unclear. However, MAP never, prior to its response to the draft report, responded to those inquiries.

PCFO Comments – Mischaracterized Expense Reimbursements:

The differences noted by MAP in its original response of January 6, 2014, indicated that the OIG reimbursement calculation used to determine the questioned costs was overstated by $195,920 due to LOC repayments and charity disbursements being counted as expenses and the fact that CFC expenses paid from a separate account were double counted. MAP summarized its revised numbers as follows (please note that the amounts listed are shown net of adjustments made following our review of MAPs response):

Reconciled Reimbursements			
	OIG Calculated Reimbursement	Actual Reimbursements Per MAP	Difference
2005	$109,704	$103,785	$5,919
2006	$211,065	$211,065	$0
2007	$263,197	$263,197	$0
2008	$603,816	$603,816	$0
2009	$679,153	$679,152	$1
2010	$847,903	$657,903	$190,000
2011	$633,997	$633,997	$0
2012	$624,216	$624,216	$0
Totals:	**$3,973,051**	**$3,777,131**	**$195,920**

Specifically, the differences between the OIG and MAP figures are the result of the following adjustments:

- For 2005, the OIG total must be reduced by a $75,918 letter of credit payment and increased by $66,973 of reimbursements from the US Bank account, for a net reduction of $8,945.

- For 2010, the OIG total must be reduced by a $190,000 letter of credit payment.

OIG Response:

Our review of MAP's additional information resulted in a partial acceptance of its responses related to the differences noted for 2005 through 2009.

For 2005, we acknowledge that the $66,974[1] was not included in our original numbers specifically. However, that amount was imbedded as part of the $75,918 LOC repayment amount it wishes to have removed from our totals. Therefore, our expense total has been reduced by $3,026, and not the $8,945 as requested by MAP, as a result of the following amounts now included as expenses in place of the $75,918:

- $66,974 in expense identified by MAP in the US Bank account;
- $5,000 in excess LOC monies withdrawn by MAP that never entered a MAP or CFC account. MAP withdrew and deposited $70,000 LOC monies into CFC accounts. However, it repaid $75,000 out of those same accounts; and,
- $918 in outstanding LOC interest and other related fees.

As for the $190,000 related to 2010, we could not verify MAP's claim that this was an LOC repayment and requested more information from them, the result of which is discussed below.

PCFO Comments – Building Purchase:

In a follow-up response, dated February 14, 2014, MAP corrected itself and stated that the $190,000 was erroneously identified by it as an LOC repayment. That amount was instead substantially used to purchase a building for office space. MAP stated that its mistake was due to the fact that its financial records were unfortunately incomplete and incorrectly kept.

MAP stated that it determined in 2010 that purchasing a building to use as office space would save substantially on rental expenses and discussed such a potential purchase with the LFCC. It stated that the conclusion reached by "MAP and the LFCC was that such a purchase would be beneficial to the CFC as it would reduce rental expenses." According to MAP, the building was used primarily for CFC purposes because MAP's non-PCFO duties were minimal.

[1] This amount differs from MAP's amount above due to rounding.

MAP stated that its decision to purchase the building was "approved informally by the LFCC" and that it proved "to be a wise investment as the CFC has been the beneficiary of lower rental expenses between 2010 and 2012, and the building has appreciated substantially in value. According to the U.S. Department of Housing and Urban Development Fair Market Rent Documentation System, the monthly fair market rent for the Sacramento area for a comparable building in 2010 was $1,719; in 2011 it was $1,737; in 2012 it was $1,689 and in 2013 it was $1,900. The CFC has only been paying $1,196 per month in rent in these years, saving over $22,000 since the building was purchased in October of 2010."

MAP stated that the "purchase of the building is similar to a PCFO purchasing computers or other hard assets or equipment to be used solely for CFC purposes. If the PCFO is not extended for subsequent campaigns, the computers purchased with CFC assets are transferred to the succeeding PCFO. In this instance, MAP would propose to repay the down payment to the CFC upon the closing of a sale of the building. The building is currently being offered for sale."

OIG Response:

We disagree with MAP's position. MAP's purchase of the building with the use of CFC funds was completely unallowable because it was never approved by the LFCC. MAP contends that it discussed the possibility of purchasing a building and that the LFCC approved the purchase "informally." However, MAP does not understand that the LFCC is the entity in charge of the CFC, not it, and the use of funds should have been approved by the LFCC formally and that decision documented. Without an official approval of the LFCC board as a group, the use of the $190,000 (of which $112,563 was used as a down payment on the building – MAP provided no details as to what the remaining $77,437 was used for) was an unallowable use of CFC funds.

Further research into the building purchase has additionally determined that although MAP purchased the building with CFC funds and for the primary purpose of the CFC, the building was purchased in the name of MAP and not the CFC.

Our discussions with the current LFCC found that it had no recollection of approving the use of CFC monies to purchase the building and that its meeting records do not show a vote taking place for that purpose. It should also be noted that during our on-site visit to MAP in June 2013 that the MAP Board of Directors President stated to the OIG that the building was purchased with MAP monies and not CFC monies.

Additionally, MAP states that the purchase of the building was a "wise investment" because it saved the CFC "over $22,000 since the building was purchased." MAP is correct, in a simple monthly expense comparison of the rent MAP charged to the CFC to occupy a building that it purchased ($1,196 per month after the purchase, compared to $1,920 prior to the purchase). However, the CFC had to pay $112,563 to save the $22,000. Finally, MAP later claims that a 90-10 split of expenses is reasonable, yet it did not pay the CFC rent for its 10 percent of occupancy expense for utilizing space in a CFC-owned building.

It has come to our attention that the building has been sold during the preparation of this final report. We are unaware of any agreements between OPM and MAP regarding the proceeds from the sale. However, the analogy provided by MAP concerning computers and equipment purchased with CFC assets and used solely for CFC purposes applies equally to the sale of the building. Therefore, since the building was a CFC asset, all proceeds from the sale of the building should be provided to the new PCFO for distribution to charities. Additionally, the proceeds should not be used to offset any costs to MAP related to this audit that have not been specifically approved by OPM.

PCFO Comments – Unsupported Costs:

In regards to the unsupported costs questioned in the draft report, MAP stated that the OIG only characterized expenses for 2005-2012 that were classified as CFC and entered into its general ledger as supported expenses. It contends that this "list is incomplete because it disregards all of MAP's CFC expenses that were either listed in the ledger as unclassified or erroneously omitted from the ledger by MAP's prior accountants, and it does not account for any allocations of administrative expenses. The audit team failed to properly understand or seek explanations for the transactions it cited as unsupported, which is understandable given the inconsistent and incomplete bookkeeping of the six different bookkeepers over the past eight years. Consequently, the audit team's calculation of 2005-2012 supported costs is substantially understated."

MAP stated that it has meticulously gone through the ledgers, payroll records, bank statements, receipts, and all other relevant documentation that was located, has reasonably allocated administrative expenses, and has investigated and classified previously uncategorized expenses. Consequently, MAP contends it paid a total of $3,856,683 in CFC expenses between 2005 and 2012 and that the Draft Report understates MAP's CFC expenses by $1,783,097, as depicted in the following chart:

	Draft Report Supported Costs	**MAP Actual Supported Costs**	**Difference**
2005	$70,145	$272,785	$202,640
2006	$98,152	$284,745	$186,593
2007	$85,907	$255,632	$169,725
2008	$292,783	$460,066	$167,283
2009	$203,416	$764,966	$561,550
2010	$438,247	$679,608	$241,361
2011	$439,148	$606,852	$167,704
2012	$445,788	$532,029	$86,241
Total:	**$2,073,586**	**$3,856,683**	**$1,783,097**

MAP stated that it conservatively allocated 90 percent of total expenses to its CFC activities. However, due to the untimely death of its previous Executive Director, there was very little institutional knowledge to draw upon to determine allocations for eight years and its "records are incomplete and have been incorrectly kept, and prior accountants failed to apply consistent accounting allocation methods to MAP's activities." MAP believes the 90-10 allocation to be a reasonable estimate of the substantial time and resources spent by its staff while administering the campaigns relative to its other activities. Additionally, MAP stated that it was a tiny organization prior to being chosen to act as a PCFO, raising approximately $60,000 in revenue each year.

As a result, MAP stated that it was not over-reimbursed for CFC expenses between 2005 and 2012, "but was actually under-reimbursed by $79,552 during this time period."

OIG Response:

We disagree with MAP's position. As stated previously, throughout its response to the finding MAP did not substantiate its claim that it was "under-reimbursed by $79,552." As a result we continue to contend that MAP took excessive funds as reimbursements for unsupported and unallowable CFC expenses.

MAP is correct that the costs identified as supported costs in the draft report disregard "expenses that were either listed in the ledger as unclassified or erroneously omitted" from the general ledger. Our review could not identify costs related to the CFC that MAP out of its own financial ineffectiveness left unclassified or omitted. Therefore, we only accepted those costs classified as CFC as per MAP and its financial records. It should also be noted that our draft report did state that because of this we understood that our conclusion may not be "100 percent accurate."

MAP's belief that a 90-10 split of expenses is reasonable was not supported by any documentation. An affidavit was provided by the President of the MAP Board of Directors stating that the "90-10 % allocation to be a reasonable estimate of the substantial time and resources spent by MAP staff administering the CFC relative to MAP's other activities." However, an affidavit provided by a person who is not a MAP employee and not involved in the day-to-day activities is not a reasonable source, nor was it supported by further documentation.

Additionally, we feel that the percentages are flawed for two specific reasons. First, the accountant employed by MAP at the time of our audit provided much different allocation percentage estimates during our on-site visit (75-25 percent for 2005 through 2009 and 85-15 percent for the period 2010 and beyond). Second, our review of MAP Annual reports for 2005 through 2012 showed nearly double the non-CFC revenue as compared to that stated by MAP in its response. Therefore, we believe that MAP's percentage of non-CFC costs is higher than what is being portrayed.

However, if MAP is correct in its assertions and all of its calculations are correct, the CFC was still charged $770,625 in expenses in excess of 110 percent of budget (using the figures provided by MAP in its response of January 6, 2014).

As a result of the assertions by MAP not being supported and being contradicted by previous information provided, we will continue to question $1,899,465 as unsupported costs.

Expenses Charged Above 110 Percent of Budget

Of the $1,899,465 questioned as unsupported costs, $770,216 was in excess of the maximum allowable expense per the CFC regulations.

Our review found that the expenses paid for the 2006 through 2012 campaigns exceeded 110 percent of the approved budget each year. According to 5 CFR 950.106(a), any amount over 110 percent is unallowable unless it was approved by OPM. Additionally, 5 CFR 950.105(d)(10) states that the PCFO must absorb campaign costs that exceed 110 percent of the approved budget. To our knowledge, OPM's approval was never requested by the PCFO for these excess amounts. This resulted in an unallowable amount of $770,216.

Unallowable Costs				
	Reimbursed Expenses	Approved Budget	110 Percent of Budget	Unallowable Over 110%
2005	$109,704	$120,148	$132,163	NA
2006	$211,065	$120,148	$132,163	$78,902
2007	$263,197	$128,431	$141,274	$121,923
2008	$603,816	$520,283	$572,311	$31,505
2009	$679,153	$518,475	$570,323	$108,830
2010	$847,903	$508,200	$559,020	$288,883
2011	$633,997	$508,200	$559,020	$74,977
2012	$624,216	$508,200	$559,020	$65,196
Totals				**$770,216**

As a result of MAP reimbursing itself in excess of 110 percent of the approved budget without OPM approval, the CFC's member charities did not receive $770,216 in monies due to them.

Recommendation 4

We recommend that the OCFC ensure that the LFCC understands that the PCFO is not permitted to recover expenses in excess of 110 percent of the approved CFC budget unless approved by OPM.

LFCC Comments:

The LFCC states that it understands the 110 percent rule. It stated that even as MAP was directed by it to cease spending related to the 2012 campaign, the President of MAP's Board of Directors argued with the LFCC that "MAP's monthly financial reports showed there was still money left in the 2012 campaign" and "that they had not yet hit 100% of approved budget, let alone surpassed 110%." The LFCC contends that the problem was the "availability of skills and resources to guide" the PCFO to setup appropriate financial systems so that it would be aware it was approaching or surpassing 110 percent of the approved budget.

OIG Response:

We accept the LFCC's response. However, we do again repeat that training is available for the LFCCs and the PCFOs at the yearly CFC conferences held by the OCFC.

PCFO Comments:

MAP acknowledges that it exceeded 110 percent of approved CFC budgets during the period from 2005 to 2012. However, it states that "all of these expenditures were reasonable and spent solely on CFC matters; therefore, this procedural breach did not cause damage to the Campaigns or their charitable recipients."

MAP stated that there is no "institutional memory" for it to rely upon to determine its past business dealings between it and the LFCC. MAP stated that it was obvious that the LFCC was supportive of the campaigns and the PCFO, but it did not record or formalize its actions. MAP acknowledged that most of the business dealings between the LFCC and its former Executive Director, now deceased, were conducted via telephone call, but no record was kept of these calls. Additionally, MAP stated that neither it "nor the LFCC kept formal records of actions or approvals, including approval of budget overruns though there is strong indication that such approvals were granted."

MAP stated that communications between it and the OCFC in February 2012 regarding a potential meeting to discuss "certain budget overruns" suggest that OPM was aware of the overruns and was suggesting a means to get them approved and that the error was merely procedural in nature.

MAP goes on to state that the "fact that the LFCC reappointed it as the PCFO in each of the years following the LFCC's receipt of final campaign reports should clearly indicate that the LFCC approved of such expenditures" and that OPM did not object to the expenditures charged.

In regards to the expenses charged by it during the period 2005 through 2012, MAP states that its campaign expenses (totaling 15.8 percent of campaign pledges) were reasonable. MAP stated that this percentage compared favorably to other charities, of which data shows 4 out of 10 charities spend over 25 percent for expenses. MAP also quoted other sources that indicate that its average of 15.8 percent "is particularly noteworthy" considering the average wages in its area of operation.

Furthermore, MAP stated that "OPM regulations do not currently require that PCFOs stay below a specific threshold for expenses (as a percentage of total support or otherwise)." It pointed out that prior to 2007, the Federal regulations restricted participation in campaigns to charities that kept their fundraising and administrative costs under 25 percent. This standard was relaxed in 2007 and now charities that exceed 25 percent can participate so long as they publish their expenses in the campaign's documents. "Thus, MAP's expense level of 15.8% is clearly reasonable and in line with OPM expectations."

"The fact that MAP did not obtain formal approval for its budget overruns in 2009 and 2010 may be a ground for removal of MAP as PCFO, to replace the LFCC, or to note a procedural violation of the regulations in the final OIG report, but since all MAP expenditures were devoted solely to reasonable campaign expenses, no financial penalty is warranted."

LFCC Response:

The LFCC stated that it disagrees with MAPs response that "neither MAP nor the LFCC kept formal records of actions or approvals, including approval of budget overruns though there is strong indication that such approvals were granted." In fact, based on the information provided to it, the LFCC states that it was led to believe that MAP "brought the campaign in on budget."

As the LFCC was not aware that MAP exceeded 110 percent of budget, it was "not aware that OPM's approval was ever requested to exceed 110% of the approved budget for each campaign year. Only during the 2011 IPA audit in 2012 did it become apparent that financial records provided by the PCFO and their accounting systems were inadequate to identify excessive campaign-year expenses that led to this audit's multi-year findings."

OIG Response:

We disagree with MAP's position and find it astonishing that it believes the charities of the CFC were not damaged by its exceeding the approved budgets by 10 percent or more over the periods of time under audit. The charities were adversely affected because monies due to them were used by MAP for expenses that were expressly unallowable by regulation unless approved by OPM (which they were not).

In its response MAP seems to think that because "the LFCC was supportive of the campaigns and the PCFO" that it was agreeable to all actions made by MAP. However, as MAP has itself stated, its own financial records were "incomplete" and "incorrectly kept." As such, it is not hard to believe that the reports of expenditures shown to the LFCC throughout the time frames of this audit were just as "incomplete" and "incorrectly kept" and if it had been aware of the actual financial condition of the campaigns, that its decisions may have been different. In fact, once the problems were brought to light in an IPA report, the LFCC moved to choose a new entity to serve as the PCFO.

MAP states that its former Executive Director conducted most of her business with the LFCC via telephone calls with the LFCC chair and that no record was kept of these calls. This shows MAPs lack of understanding of the regulations. The LFCC chair cannot and does not make decisions for the board and conversations should never have been considered as marching orders for the CFC by MAP. The only approvals and decisions relative to the CFC made by the LFCC are those made as a group.

MAP mentions the communications between its former Executive Director and the OCFC at OPM regarding "certain budget overruns," and states OPM's awareness of the overruns suggested that OPM was working to get the overruns approved. This is simply not the case. The emails from the OCFC indicate that it was providing MAP with the procedural framework for it to determine what to do, not that an approval was imminent. If OPM had approved a budget overrun, it would have provided the approval in writing and that was not done.

MAP's insistence that because the LFCC reappointed it as the PCFO each year indicates approval of expenses is bewildering considering MAPs own acknowledgement that the reports it provided the LFCC and OPM were based on financial records which were "incomplete" and "incorrectly kept."

MAP goes on to compare its expense ratios to those of charities and insists that this shows that its ratios were acceptable and within OPM expectations. However, MAP is essentially comparing apples to oranges as in its role as a PCFO, MAP is not a "charity," but an administrator of a charity campaign. That being said, when compared to other PCFOs with pledges over $1 million for the 2011 campaign, MAPs "reasonable" expense ratio to pledges of 15.8 percent would rank it 64th out of 66 PCFOs with pledges greater than $1 million, which had expense ratios of 10.2 percent on average.

Lastly, MAP claims that although its overruns might be grounds for removal as the PCFO, its violations were merely procedural and as the expenses were devoted solely to "reasonable campaign expenses," that no financial penalty is warranted.   In actuality, the request to return the funds reimbursed to MAP in excess of 110 percent of the budget is not a penalty, it is a remuneration of monies taken without approval and in direct violation of the regulation which states that the "PCFO shall recover from the gross receipts of the campaign its expenses, approved by the LFCC, reflecting the actual cost of administering the local campaign. **The amount recovered for campaign expenses shall not exceed 110 percent of the estimated budget submitted pursuant to 950.105(c)(1) unless approved by the Director.**" (Emphasis Added)

To illustrate the effect of MAP's financial ineffectiveness we reviewed the charity disbursements made by MAP in closing out its duties as the PCFO for the 2012 campaign, during which it reported $4,093,113 in pledges. Total expenses (excluding those additional expenses allowed to MAP due to this audit) were $624,216, leaving $3,468,897 available to disburse (before pledge loss). MAP applied a nine percent pledge loss to the agencies receiving one-time disbursements for the 2012 campaign, which is the average of the pledge loss in the previous three campaigns. To be conservative, we applied a 12 percent pledge loss to the amount available to disburse and estimated that the amount MAP should have disbursed for the 2012 campaign was $3,052,629. However, as of the final disbursement issued by MAP on March 31, 2014, it had disbursed $2,067,077 to the charities of the 2012 campaign, resulting in a disbursement shortage of $985,552 from our estimated amount. This clearly shows that the charities were harmed by MAP's ineffective financial practices.

2. <u>2011 Campaign Expenses</u> **<u>$101,811</u>**

MAP charged the 2011 campaign $101,811 in expenses that were either unsupported, unallowable, or improperly allocated.

According to 5 CFR 950.105(b), the PCFO is responsible for conducting an effective and efficient campaign in a fair and even-handed manner aimed at collecting the greatest amount of charitable contributions possible.

Additionally, 5 CFR 950.106(a) states that the PCFO shall recover from the gross receipts of the campaign its expenses reflecting the actual costs of administering the local campaign.

Furthermore, 5 CFR 950.604 requires PCFOs to retain documents pertinent to the campaign for at least three completed campaign periods. In other words, documentation supporting the 2011 campaign expenses should be maintained until early 2015.

Finally, CFC Memorandum 2006-5(D) states that allocated expenses must be supported by a reasonable allocation methodology.

We reviewed a sample of expenses from the 2011 campaign to determine if the amounts charged to the campaign were CFC-related, actual costs with supporting documentation, and charged to the correct campaign. Our review identified $101,811 in expenses that were either unsupported, unallowable, or improperly allocated. Specifically, we identified:

- **$72,974** in charges that were not supported by invoices to show that the costs were actual and were legitimate CFC expenses.

- **$15,238** in unallowable expenses related to the following:
  1) **$11,596** in unallowable accounting expenses to correct errors in MAP's accounting records. MAP claims that these costs were to correct changes made to its records by an IPA hired to review the CFC. However, discussion with the IPA found that it did not make any changes to the records. Ultimately the responsibility for keeping accurate accounting records belongs to the PCFO and if errors were made, correcting those errors is the responsibility of MAP and not the CFC.
  2) **$1,978** in unallowable entertainment charges and overcharges for promotional coins. Of the costs questioned, $1,378 is for promotional coins purchased for Norcal and other CFCs by the PCFO. The $1,378 relates to the shipping of those coins to the other CFCs which was paid by Norcal alone, and not

charged to those other CFCs. The balance of $600 is related to unallowable entertainment costs at a kickoff event.

3) **$1,131** in unallowable travel expenses related to airfare upgrades, canceled airfare charged to the CFC, per diem overcharges, and personal travel expenses for MAP employees. The airfare upgrades, totaling $104, were to allow the traveler to gain "extra leg room" and to allow for early boarding according to MAP. This type of charge is for personal convenience, and although MAP may allow their employees to do it, it has no benefit to the CFC. The CFC was also charged $494 for airfare on a trip that was ultimately canceled and not refunded to the campaign. Additionally, MAP charged the CFC $453 for extra days spent by an employee at a CFC conference which were outside of the conference dates. As these days were not related to the CFC, they are not allowable costs. Lastly, MAP overcharged the CFC $80 (for just those items sampled and reviewed) for meals and incidental expenses which exceed the IRS rates as set for business travelers.
4) **$533** in other miscellaneous charges related to registration late fees, a flower purchase, an insufficient funds charge, expenses belonging to previous campaigns, and $95 for meals and incidental expenses which exceed the IRS rates as set for business travelers. These costs are unallowable as they are either unrelated to the CFC or were the result of ineffective management by MAP.

- **$13,599** in expenses that were not allocated by MAP. MAP provided appropriate allocation percentages and the amount questioned represents the amount charged to the CFC that was in excess of the amount we calculated using these percentages.

As a result of charging the CFC for unsupported, unallowable, or improperly allocated expenses, $101,811 was not disbursed to the charities of the 2011 campaign.

Recommendation 5

We recommend that the OCFC and the LFCC direct MAP to distribute $101,811 in unsupported, unallowable, or improperly allocated expenses as undesignated funds to the charities participating in the campaign currently disbursing funds.

In its response to our draft report, the PCFO separated its comments into several categories based on the nature of the items questioned in the audit finding. In order to enhance readability, our final report incorporates the PCFO's comments on a category-by-category basis. Our responses immediately follow each separate PCFO comment.

PCFO Comments:

MAP contends that the findings are erroneous, as the audit team failed to properly understand or review explanations for the transactions questioned. The basis for its position will be explained in more detail on an item-by-item basis below.

OIG Response:

We disagree with MAP's position for the reasons explained in more detail below.

PCFO's Comments – Documentation:

Citing a lack of documentation, the OIG disallowed $72,974 in charges and asserts that these expenses were not supported by invoices to show that the costs were actual and legitimate CFC expenses. MAP's staff has provided the audit team with e-mail and calendar documentation, meeting notes, travel itineraries, and photographic proof for these expenses, whenever possible. However, itemized receipts for each expense could not be located. The CFC regulations require the PCFO to maintain "a detailed schedule of its actual CFC administrative expenses with, to the extent possible, itemized receipts for the expenses." MAP stated that it would send all such receipts if they could be located, and contends that the audit team's requirement of itemized receipts exceeds the regulatory standard.

OIG Response:

We disagree with MAP's position and offer the following regulatory citations to support our position.

5 CFR 950.104 (b)(17) states it is the responsibility of the LFCC to authorize the PCFO's expense reimbursement of legitimate CFC costs that are adequately documented. On top of the fact that, by its own admission, MAP did not maintain documentation to support a majority of the questioned expenses (emails, calendar documentation, meeting notes, etc. are not sufficient documentation to support a legitimate expense), no evidence was ever provided by it to support that any of its expense reimbursements were authorized by the LFCC in the first place.

Furthermore, 5 CFR 950.105 (d)(7) requires the PCFO to maintain detailed schedules of its actual CFC administrative expenses, which must be in a format that can be reconciled to its budget. Not only was this schedule not maintained for the 2011 campaign, we could not determine whether 98 percent of the expenses that fall into this category were legitimate CFC costs due to a complete lack of documentation. While the regulation states that itemized receipts should be maintained to the extent possible, the fact that almost all of the expenses in this category had no supporting documentation shows that MAP did not exercise due diligence in meeting this regulation requirement.

PCFO's Comments – Unallowable CFC Expenses:

The OIG questions $15,238 in charges that are "not legitimate CFC expenses," including certain (i) accounting expenses, (ii) entertainment charges, (iii) promotional coins, (iv) travel expenses, and (v) certain miscellaneous expenses, including registration late fees, a flower purchase, and an insufficient funds charge. As further detailed below, these charges should be allowable for the following reasons.

i. Accounting Expenses:

The OIG disallowed $11,596 in accounting expenses, which was spent to correct changes made to the PCFO's records by its IPA. The IPA made over six million dollars of erroneous changes to MAP's accounting records, including changing over 40 entries in the PCFO's books without adequate basis to do so. Because this expense was necessary to correct mistakes and fix accounting books and records resulting from actions by the IPA, it should be an allowable expense of the CFC.

OIG Response:

We disagree with MAP's position. While it is not within the scope of this audit to determine who was responsible for the changes to MAP's accounting records, we have serious concerns with any PCFO who would blindly allow an outside auditor access to their books and accounting records to make adjustments and/or changes (especially an IPA not contracted by it, but by the LFCC, to only audit records related to the CFC). Not only does this display weak internal controls on the part of MAP, but it would also be a conflict of interest for the IPA and could potentially expose the PCFO's accounting records to the risk for fraud and abuse of CFC funds. Furthermore, we inquired of OPM's OCFC as to whether these types of expenses would qualify as legitimate campaign costs and were told that costs to correct books of record caused by a lack of due diligence on the part of any PCFO would not be considered allowable campaign expenses. Consequently, we will continue to question these amounts.

ii. Entertainment Charges:

The OIG "disallowed $600 related to a kickoff event in September of 2011 as an excessive cost. While listed as a cost for DJ services, the expense was primarily for a sound system, which was necessary to communicate with event attendees. It is not unreasonable or excessive to provide music and sound support for such a large event."

MAP states that OPM guidance provides, with respect to kickoff rallies, a list of suggested activities including musical segments and obtaining the services of a local personality to emcee the kickoff rally. "Although this guidance was removed pursuant to OPM's Memorandum for LFCCs and PCFOs, "Directive Prohibiting the Approval of Costs Incurred for Meals and/or Entertainment" (March 28, 2012), the audit staff's attempt to apply these new rules to the 2011 Norcal CFC would retroactively and unlawfully change longstanding campaign practices. Therefore, this expense should be allowed."

OIG Response:

MAP states that this type of expense was expressly allowed under OPM guidance applicable at the time the cost was incurred. We disagree. Per the cited OPM directive issued on March 28, 2012, by then Director John Berry, OPM stated that it never authorized CFC campaigns to charge for the expenses of entertainment, either at special events or on any other occasion. Therefore, this directive did not state any new rules, but restated those which were already in effect. As a result, we maintain that this cost was not chargeable to the CFC and will continue to question the $600 for entertainment services.

iii. Promotional Coins:

The OIG disputed a $1,378 charge for promotional coins that were used as donor recognition gifts. These coins were purchased for several campaigns, including the Norcal campaign, with MAP coordinating the purchase and receiving reimbursements from the other campaigns. The amount questioned related to charges incurred by MAP as the organizer of this effort, including shipping the coins to the other campaigns. There was no agreement between the campaigns to share the shipping costs. Consequently, it is unlikely that MAP can recoup these expenses from the other campaigns. Therefore, this is an expense clearly related to the CFC and should be allowed.

OIG Response:

We do not agree with MAP's position and maintain that the $1,378 is an unallowable campaign expense. The fact that MAP acted as the organizer of this purchasing effort does not absolve them of collecting the appropriate amount from the other campaigns for their portion of the coin costs. Additionally, paying shipping costs belonging to other campaigns is not an allowable campaign expense and should not have been paid out of Norcal campaign funds, regardless of whether or not there was an agreement to share these costs. If MAP wanted to cover the other campaigns' costs, it should have covered these costs using its own (non-CFC) funds. Consequently, the $1,378 will continue to be questioned.

iv. Travel Expenses:

The OIG disputed $1,131 in travel expenses related to airfare upgrades, cancelled airfare, "excessive" per diem charges, and other travel expenses for MAP employees. These expenses were incurred for attendance of MAP staff at national CFC conferences. Therefore, all of these charges are allowable as they were incurred in connection with and benefitted the CFC. Specifically, the airfare upgrades were used to accommodate a staff member's physical needs to avoid potentially significant pain while flying and the staff member covered half of the cost of the upgrade personally.

Additionally, the cancelled airfare was due to a staff member's canceling a conference attendance at the last minute due to a medical condition. The airfare could not be refunded due to the late cancellation. MAP contends that it would have been fiscally careless to purchase refundable tickets for all staff members at a cost of two or three times the cost of the regular fare. Furthermore, the $80 in excessive per diem charges was based on limits under the General Services Administration's travel rules that are applicable to Federal employees. However, MAP's staff members are not Federal employees, and there is no CFC regulation or guidance from OPM requiring that this Federal threshold be used, a fact that the audit team acknowledged. Consequently, since this arbitrary rule is not found in CFC regulations, the full amount of these expenses should be allowed. Furthermore, if OPM wishes to impose such a limitation on campaigns, it must do so prospectively, with notice to all PCFOs.

Finally, the OIG disallowed $453 in hotel charges for extra days spent by an employee at a CFC conference which were outside of the conference dates. These costs should be allowable, as early or late arrival is often necessary to ensure prompt attendance at conferences, and it is common practice to meet with OPM and LFCC representatives about CFC matters on these extra days. In fact, an e-mail exchange provided to the audit staff, between OPM's OCFC and MAP's Executive Director shows the OCFC suggesting meeting either before or after the conference to discuss CFC matters. Therefore, all of these travel costs were reasonable and necessary and should be allowed.

OIG Response:

We disagree with the MAP's position for the following reasons. Needing more legroom on a flight for a member's physical needs is not sufficient justification to warrant the charging of the upgrade fees to the CFC, and these types of expenses are expressly unallowed under Federal Travel Regulations. While we understand that MAP employees are not Federal employees, when they are traveling for CFC business, which would be considered Federal business since the CFC is a Federal program, they should be held to the same limitations that Federal employees are held to when traveling for Federal business. Consequently, we maintain that these costs ($104) should continue to be questioned.

Additionally, it is not our expectation that a PCFO purchase refundable airfare tickets for its staff members when traveling for CFC business. However, when trips are cancelled, regardless of the circumstances, the costs incurred should either be refunded to the campaign (less the applicable cancelation fee) or a suitable replacement be sent to attend in the other person's stead. Therefore, we will continue to question the $494 in airfare costs.

Furthermore, when PCFO employees are traveling for CFC business, which, as we have already stated, would be considered Federal business since the CFC is a Federal program, they should be held to the same per diem limitations that Federal employees are held to when traveling for Federal business. That being said, a portion of this overcharge was incurred by an LFCC member, who is a Federal employee and is subject to the per diem limits when traveling for business purposes. Finally, to further support our position we would add that the Internal Revenue

Service's Publication 1542 establishes per diem rates for all employers, not just the Federal Government, who pay a per diem allowance to employees for business travel away from home. The per diem rates that are to be used per this publication are those established by the General Services Administration. So contrary to MAP's position that we are imposing an arbitrary rule on the campaigns in enforcing this requirement, we would counter that these rates are used by all employers for business travel under the IRS regulations for tax purposes. Therefore, we maintain that the $80 in overcharges should continue to be questioned.

Finally, we are not questioning the costs associated with the early arrival to the conference. That being said, no documentation was provided by MAP, in its response to the draft report, other than the cited email, to support that any CFC meetings with the OCFC or the LFCC members were held after the end of the conference. Furthermore, the cited email does not propose to meet the day after the conference. It does propose to meet after the conference sessions, which more than likely would have occurred within the conference time frames. Finally, even if we agreed that the meeting occurred the day after the conference, it still does not explain why an additional two days stay was charged to the CFC. Consequently, we maintain that the expenses associated with the extra three days stay following the end of the conference are not legitimate CFC expenses and should be reimbursed to the campaign by MAP.

v. <u>Miscellaneous Expenses:</u>

The OIG disputed $533 in expenses, consisting of registration late fees, a flower purchase, and an insufficient funds charge. The $350 in late fees was due to a medical emergency in the family of MAP's Executive Director, which delayed registrations for certain conferences. The alternative was to not attend, which would have been detrimental to the campaign. The $64 flower purchase was a token of sympathy due to a death in a Loaned Executive's family, which furthered the relationship between the Loaned Executive program and the CFC. Finally, the $12 insufficient funds charge is within a reasonable range of expense needed to effectively manage a successful campaign, was within the approved CFC budget, and was directly connected to the CFC. Therefore, these expenses should be allowed.

MAP did not comment on the remaining overcharges covered under this category in its response to the draft report, specifically, $12 charged for amounts relating to a previous campaign, and $95 for meals over the per diem limits.

<u>OIG Response:</u>

We disagree with MAP's position for the following reasons. While we understand that there were extenuating circumstances that caused the conference registrations to be submitted after the registration deadline, which does not justify MAP's passing the late fees on to the campaign. We would argue that if MAP's Executive Director was unable to register the conference participants in a timely manner, then that responsibility should have been assigned to other MAP staff who could have handled this simple task. Therefore, we maintain that the late fees incurred in this case were expenses that should have been borne by MAP, not the campaign. Consequently, we will continue to question the late fees related to these transactions.

Additionally, we believe that MAP's comments related to the flower purchase highlight its misunderstanding of the nature of the role Federal employees play when working for a campaign. When serving as a Loaned Executive, the work performed by the Federal employee is considered part of their official duties, for which they receive their full salary and benefits. Consequently, there is no need to "further relationships" between the PCFO and the Loaned Executives. Therefore, we contend that the amount paid for the flowers is not chargeable to the CFC and should be reimbursed to the Program from the PCFO's non-CFC funds. One could also question whether this type of perk violates the ethics rules in place at this Federal employee's represented agency. It should be noted that OPM's OCFC issued CFC Memorandum 2011-07 in November 2011 that affirms that LFCC members, Loaned Executives, Campaign Coordinators, Key Workers, and any other Federal employees working on the campaign are subject to the Government Ethics rules as well as any additional ethics rules required by their specific agencies while performing their CFC duties. This memorandum also instructs these campaign workers to be familiar with the ethics regulations related to receiving gifts and to ensure that any gifts received while working for the CFC are acceptable under the Government Ethics regulations.

Finally, we do not agree that the remaining charges under the miscellaneous expense category, specifically the $12 insufficient funds charge, $12 charged for amounts relating to a previous campaign, and the $95 for meals over the per diem limits are expenses needed to effectively manage a successful Campaign. The insufficient funds charge is not a necessary cost of administering the campaign as defined in 5 CFR 950.106(a), and should be reimbursed to the Program from MAP's own (non-CFC) funds. Additionally, 5 CFR 950.106(b) expressly prohibits the reimbursement of expenses from previous campaigns, which is why we questioned $12 that was charged to the 2011 campaign related to the mailing of expense reimbursement checks for a 2010 awards ceremony. Finally, as explained previously, amounts charged for meals while in a travel status for CFC business should not exceed the Federal per diem limits. Consequently, we maintain that the $95 charged for meals in this expense category should be returned to the campaign.

PCFO's Comments – Allocation Percentages:

The Draft Report concludes that $13,599 of MAP's administrative expenses in 2011 were incorrectly allocated 100 percent to the CFC and calls for a re-allocation of expenses to the three campaigns being run concurrently in 2011. The implementation of this proposed action would cause considerable inconsistencies among the PCFO's campaigns and would require that the PCFO adopt a completely different allocation methodology from the one that it has consistently and reasonably applied.

OPM guidance does not require that PCFOs adopt a particular allocation system. Instead, it requires that an allocation methodology must be reasonable and ensure that the CFC incurs a fair share of the costs. MAP has allocated 100 percent of its CFC administrative expenses every year to the particular campaign that was commencing in that year based on the reasonable assumption that start-up activities for a campaign are substantially greater than distribution and wind-up activities for the other on-going campaigns. MAP's allocation methodology is reasonable and has been consistently applied throughout the scope of the audit. The proposed changes to the 2011 expense allocations would necessitate making changes to re-allocate expenses to the other concurrently occurring campaigns. According to MAP, "This type of undertaking would be substantial, would involve significant accounting hours, and is not required by OPM regulations."

OIG Response:

We disagree with MAP's positions. MAP completely misinterpreted what we were asking it to do as far as redistributing improperly allocated expenses. The draft report did not request that it re-allocate expenses to the three campaigns being run concurrently in 2011. Instead, what it recommended is for MAP to distribute these amounts to the campaign currently disbursing funds, which is the 2012 campaign.

Additionally, MAP states that it had an allocation methodology that was used to consistently and reasonably allocate expenses and understands that the methodology employed should ensure that the CFC incurs a fair share of the costs. However, based on their definition of allocation as explained in their response, it does not appear that it understands that costs are not only to be allocated between campaigns, but also between CFC and non-CFC activities. This apparent lack of understanding was evidenced by the fact that our review of the 2011 campaign expenses showed no evidence of expenses being allocated to MAP for its share of the costs. Instead, all expenses were charged 100 percent to the CFC. Our concerns were confirmed by MAP's accountant who informed us that MAP had <u>never</u> allocated expenses between CFC and non-CFC activities. This method of allocation is not in accordance with the intent of CFC Memorandum 2006-5(D).

In regards to allocating costs between campaigns, it also appears that MAP was incorrectly allocating costs on a calendar year basis instead of over the course of the campaign, which covers a two year period (as stated in CFC Memorandum 2008-9) instead of the three year period claimed by MAP. This methodology of cost allocation is in violation of 5 CFR 950.106(b) which states that PCFOs may only recover campaign expenses from receipts collected for that campaign period. Regardless of the substantial undertaking on the part of MAP to correct the errors resulting from its use of an improper allocation methodology, it is still the responsibility of the PCFO to comply with the requirements of the CFC regulations.

In determining the expense amounts that were chargeable to the CFC, we used allocation percentages provided by MAP and questioned the difference between the actual amount charged to the CFC and the amount that should have been charged per the allocation percentages. Consequently, we maintain that $13,599 was overcharged to the CFC due to the use of incorrect allocation percentages and should be returned to the campaign.

Recommendation 6

We recommend that the OCFC and LFCC ensure that future PCFOs implement procedures to ensure that only those expenses related to the CFC are actually charged to it.

LFCC Comments:

The LFCC concurs with this recommendation and requests training and written guidance for LFCC members. It also requests CFC Memoranda be consolidated into a single online source for LFCCs.

OIG Response:

We accept the LFCC's response. However, we would remind the LFCC that training is available at the yearly CFC conferences held by the OCFC. We would also remind the LFCC that regulations and memoranda can be found on OPM's CFC website.

B. CAMPAIGN RECEIPTS AND DISBURSEMENTS

1. Outstanding Check Procedures $7,653

MAP's policies and procedures for outstanding checks do not adhere to the OCFC's requirements. In addition, MAP has not reissued or redistributed $7,653 in outstanding checks related to prior campaigns.

Section C of CFC Memorandum 2006-5 states that the PCFO must develop and follow policies and procedures regarding un-cashed checks. The OCFC recommends that this policy be documented and implemented after a check has gone un-cashed for six months. The procedures should include at least three documented follow-up attempts to reach the payee by phone and e-mail. If it's determined that the payee is no longer active, the funds must be disbursed among the remaining organizations for that campaign as undesignated funds.

MAP's policies and procedures related to outstanding checks do not specify the timing, frequency, or number of follow-up attempts to charities that have not cashed their checks. Additionally, the procedures do not include what is done with unclaimed CFC monies.

Additionally, MAP stated that because none of the prior administrators of the campaign are present, it is unaware of why the stated procedures of Memorandum 2006-5 were not put in place. The current administrators pointed to the fact that the CFC memorandum states that the procedures were recommended and that a reasonable response was put in place. MAP also stated that its Board of Directors passed a general operating policy that required it to develop a policy related to outstanding checks.

We have (verbally) instructed MAP that it needs to institute the procedures outlined in CFC Memorandum 2006-5 and that its Board of Directors does not have the authority to bind the CFC in any way, shape, or form. That authority only resides with the LFCC and OPM.

As a result of MAP not following the outstanding check guidelines issued by OPM, MAP has retained funds related to 12 outstanding checks (totaling $7,653) that should either be resent to the proper charity or redistributed to the current campaign as undesignated funds.

Recommendation 7

We recommend that the OCFC and LFCC direct MAP to implement the outstanding checks guidelines stated in CFC Memorandum 2006-5 and follow-up with the charities of the 12 outstanding checks to determine if they are still active to redistribute the $7,653 in outstanding checks. If they are not active, the funds should be transferred to the new PCFO and be distributed by it as undesignated funds to the current campaign.

Recommendation 8

We recommend that the OCFC and LFCC direct MAP to ensure that the guidelines stated in CFC Memorandum 2006-5 are followed for all remaining distributions made by it.

MAP Response:

MAP concurs with the recommendations and stated that it has followed up with the charities related to the outstanding checks to determine if they are still active charities. If the charities are no longer active it will distribute the monies in question as undesignated funds.

OIG Response:

As MAP will not serve as PCFO for the 2013 campaign, the OCFC should ensure that MAP quickly follows-up on any outstanding checks (within six months following the close of the 2012 campaign) to determine if the charities are inactive. All monies related to outstanding checks for inactive charities should be transferred to the new PCFO to be distributed as undesignated funds.

2. Pledge Form Errors $2,600

Our review identified 12 pledge forms with a total of 7 types of errors, 1 of which resulted in a charity not receiving a disbursement of $2,600.

5 CFR 950.105(d)(1) states that it is the responsibility of the PCFO to honor employee designations.

Additionally, 5 CFR 950.105(d)(3) states that it is the responsibility of the PCFO to train keyworkers to check and ensure the pledge form is legible, to verify arithmetical calculations, and to ensure the donor's release of personal information is filled out properly.

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

Finally, 5 CFR 950.601(c) states that it is the PCFO's responsibility to forward the contributor's information they wish to be released to either the recipient organization directly, if the organization is independent, or to the organization's federation if it is a member of a federation.

We reviewed a sample of 75 paper pledge forms and 51 electronic pledges to determine if the pledge form data matched MAP's pledge form report. Specifically, we verified the donor name, charity code and amount donated, total amount donated, and the donor's choice to release their personal information. Our review of MAP's data entry accuracy identified 12 pledge forms containing a total of 7 types of errors between them. Specifically, we identified the following errors:

- One electronic pledge that was missing from MAP's pledge form tracking system which resulted in total designations to the charity being reduced by $2,600. MAP agreed that this pledge was overlooked and will make sure that funds are available to cover the pledge.

- Two paper pledge forms where the pledge form authorized the release of the donor's address and amount pledged. Yet, MAP's pledge form tracking system did not reflect this authorization. MAP stated that it believes this resulted from errors entering the data into its pledge form tracking system.

- One paper pledge form where the donor designated to more than five charities. MAP indicated that it was unsure why the keyworker did not ask the donor to fill out a second pledge form and attach it to the first form. However, it chose to work with the data it was provided, as requesting changes from the key worker and donor would add an additional burden to them and extend the time needed to process the pledge card.

- Two paper pledge forms where the total gift amount exceeded the amount of the designations, and the designations were altered to make up the difference. Rather than altering the amount of the designations, the excess amount should have been disbursed as undesignated funds. For one pledge form, MAP stated that the keyworker made the clarification. For the other pledge form, MAP indicated that the data entry clerk made the correction in order to reconcile the pledge in the pledge form tracking system. No one, other than the donor, is permitted to make changes to a pledge form. Therefore, both of these actions were violations of the regulations.

- Two paper pledge forms where the keyworker altered the pledge form charity codes instead of returning it to the donor for correction. MAP stated in both cases that it was the keyworker that made the change. By changing the charity codes, the keyworker may have altered the intention of the donor and as stated above, only the donor is permitted to make changes to a pledge form.

- Three paper pledge forms where MAP's data entry clerk adjusted the total gift amount and/or designation amount to match the amount taken out of the donor's pay each pay period. Based on the regulations, pledges are based on the total gift and not the per pay period amount. The amount deducted from the donor's pay is determined by the payroll office based on the total gift.

- One paper pledge form that was missing a page(s). When we asked MAP to provide the remaining pages of the pledge form, the additional pages could not be located.

As a result of these errors, MAP did not meet its responsibility to honor Federal employee designations. Additionally, MAP did not disburse $2,600 to a charity.

<u>Recommendation 9</u>

We recommend that the OCFC and LFCC direct MAP to immediately distribute $2,600 to the charity overlooked on the missing electronic pledge.

<u>MAP Response:</u>

MAP agreed that the pledge questioned was overlooked and stated that the funds would be distributed to the charity.

<u>OIG Response:</u>

MAP did not provide documentation to support that the payment was made to the charity in question. Therefore, the OCFC and LFCC should follow-up with MAP to ensure that the payment was made.

3. CFC Funds Not Maintained in Interest-Bearing Accounts **Procedural**

MAP did not maintain CFC funds in an interest-bearing account during its administration of the 2005 through 2012 campaigns.

5 CFR 950.105(d)(8) requires the PCFO to keep and maintain CFC funds in interest-bearing accounts.

We reviewed the multiple accounts utilized by MAP during its administration of the 2005 through 2012 campaigns to determine if the accounts were interest-bearing. Our review found that MAP never maintained CFC funds in interest-bearing accounts. Further discussion with the OCFC found that MAP had never requested or received a waiver from this regulation requirement.

As a result of not maintaining CFC funds in interest-bearing accounts, as required by the regulations, MAP may have reduced the amount of monies available to charities (resulting from interest earned) during its administration of the CFC.

Recommendation 10

We recommend that the OCFC ensure that the LFCC understands the requirement to have the new PCFO maintain CFC funds in an interest-bearing account.

LFCC Response:

The LFCC concurs with the recommendation and states that the organization serving as PCFO for the 2013 campaign is utilizing interest-bearing accounts. The LFCC also stated that had "no idea why this was never a practice" in the campaigns administered by MAP.

C. ELIGIBILITY

Our review of the LFCC membership determined that all those serving were Federal employees.

D. FRAUD AND ABUSE

While our review of MAP's policies and procedures for fraud and abuse indicated that they were sufficient to detect and deter potential fraud and abuse activities, the nature of the deficiencies identified during this audit, as explained in the Audit Findings and Recommendations section of this report, weakened the effect that these policies and procedures were meant to have in protecting CFC funds from instances of fraud and abuse.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

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January 6, 2014

VIA EMAIL AND COURIER DELIVERY

Office of the Inspector General
United States Office of Personnel Management
1900 E Street NW, Room 6400
Washington, D.C. 20415-1100
Attn: [redacted]
Group Chief, Special Audits Group

Subject: Responses of MAP to Draft Report No. 3A-CF-00-13-051

Dear [redacted]

We are filing this letter on behalf of the Metropolitan Arts Partnership ("MAP") in response to the tentative findings of your office in its Draft Report of September 27, 2013 (the "Draft Report") relating to your audit of the Combined Federal Campaigns ("CFCs" or "Campaigns") administered by MAP between 2005 and 2012 as the Principal Combined Fund Organization ("PCFO").

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We acknowledge in this response a number of procedural breaches by MAP. Neither MAP nor the LFCC were fully familiar with OPM regulations and MAP was, throughout the audit period, a small organization, the actions and accounting personnel of which indicate a lack of business and accounting sophistication. For example, neither MAP nor the LFCC kept formal records of actions or approvals, including approval of budget overruns though there is strong indication that such approvals were granted. Also, a prior MAP accountant failed to apply GAAP cost accounting allocation methods to allocate costs incurred for the CFC and to MAP's other charitable activities, respectively. Finally, accounting entries regarding distributions from and repayment of a certain letter of credit obtained to support Campaign expenses were erroneously made.

Nevertheless, these procedural breaches did not cause damage to the Campaigns or their charitable recipients nor did they lead to inappropriate Campaign expenditures, and they have been remedied after they were identified by OIG during its audit. We also note that the number of years encompassed by the audit, eight, far exceeds the three-year period for which records are required to be maintained under OPM rules. Thus, both OIG's and our investigations to respond to OIG's preliminary audit report are encumbered by the limitations of OPM's own rules.

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We note also that MAP has only a small net worth remaining to support its charitable activities in the San Francisco area.[1] Accordingly any penalty recommended by OIG will deprive other charitable recipients from receiving valuable services and could cause MAP to become insolvent.

I. UNIQUE COMPLICATIONS OF MAP AUDIT

We believe that your staff worked hard and responsibly to determine whether MAP had fully complied with the rules applicable to it as PCFO of the CFCs in questions and we commend your staff for its detailed review. However, while the audit staff made some valuable contributions to raising MAP's awareness to the importance of certain individual transactions and procedures, as a general matter we are forced to observe that most of the conclusions reached in the Draft Report represent a misunderstanding of the associated accounting entries. It is not surprising that the audit staff could make a series of mistaken assumptions and erroneous recommendations because an audit encompassing the years 2005-2012 in the case of MAP is particularly difficult for the following reasons:

- A simultaneous audit of eight years that is well removed from the most remote of the audited Campaigns is complicated by OPM regulations, which only require the retention of three years of CFC records.[2]

- MAP used at least six different accountants during the eight audited years and its books and records reflect varying skill levels and understanding of CFC rules, as well as varying agendas. In some cases, very substantial amounts were left unallocated by an accountant who apparently did not understand the division between MAP's non-CFC and CFC activities and this failure to allocate caused your staff to disallow all such amounts in the Draft Report until appropriate allocations to the CFC could be undertaken. As explained below, such allocations now have been made.

- After 2012, MAP was replaced as the PCFO. Accordingly, virtually all of its employees have been terminated. Only one MAP employee remains to close out the most recent CFCs.

- Michelle Walker, who was the co-founder and executive director of MAP and most intimately involved in the operations of the CFC and MAP's interaction with the LFCC, could have answered many of the questions raised by your office and provided further support for expenses incurred, passed away in January of 2013 before your audit commenced. Because of Ms. Walker's untimely death, there is very little institutional memory to draw upon to determine why certain steps were taken and where relevant records may be stored. Thus, your staff had to rely on original financial records that were at times incomplete or incorrectly kept, some of which were

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1 MAP's principal asset is the building housing its office space, which is encumbered by a significant mortgage. MAP has very few other assets and virtually no liquid assets.

2 See 5 CFR 950.604 ("PCFOs and other participants in the CFC shall retain documents pertinent to the campaign for at least three completed campaign periods").

even inappropriately altered during the course of certain audits by 2011 Norcal CFC auditor, [redacted]

- The Draft Report's calculations of MAP's unsupported and unallowable expenses rely primarily on bank statements, which only show when revenue and expenses were credited or debited to the CFC account, instead of detailed accounting records categorizing the expenses into allowable classes. As a result, OIG has disallowed a significant amount of expenses merely because of the inadequacy of MAP books and records and not because such expenses were inappropriately incurred.

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II. MAP RESPONSES TO DRAFT REPORT

A. Procedural Recommendations

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B. Budget and Campaign Expense Recommendations

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There should not be any reimbursement due to the CFC because, as demonstrated herein, (1) for the 2005-2012 Campaigns, MAP was actually under-reimbursed by a total of $79,552, and (2) substantially all of MAP's expenses in 2011 are fully supportable as reimbursable CFC expenses.

1. Administrative Expenses 2005-2012

The Draft Report asserts (i) that MAP was reimbursed for a total of $4,261,140 of expenditures between 2005 and 2012; (ii) that "supported expenses" only make up $2,073,586 of such reimbursements; and, therefore, (iii) that the remaining $2,187,554 of reimbursements represent unsupported costs that should be repaid to the CFC. The audit team's calculations are as follows:

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[3] As detailed in **Exhibit H**, [redacted] made over $6 million worth of changes to MAP's records, virtually all of which MAP's accountant has had to reverse, including changing over 40 entries in MAP's books without adequate basis to do so; and when [redacted] could not identify reasons for certain accountant entries, he made unfounded allegations to third parties about Ms. Walker. MAP is preparing to file a complaint against [redacted] with the California Board of Accountancy.

OIG Calculations of Reimbursements and Expenses			
	Reimbursed Expenses	Supported Expenses	Unsupported Expenses
2005	$112,730	$70,145	$42,585
2006	$256,065	$98,152	$157,913
2007	$283,197	$85,907	$197,290
2008	$610,515	$292,783	$317,732
2009	$888,900	$203,416	$685,484
2010	$851,520	$438,247	$413,273
2011	$633,997	$439,148	$194,849
2012	$624,216	$445,788	$178,428
Totals:	**$4,261,14**	**$2,073,586**	**$2,187,554**

These numbers do not reflect the reality of MAP's operations over this period. MAP actually incurred $3,856,683 of CFC expenses between 2005 and 2012 and was reimbursed for a total of $3,777,132, resulting in an under-reimbursement of $79,552.

a. Total Reimbursements

The Draft Report's 2005-2012 reimbursement calculations are overstated by $484,009, as shown below and in the enclosed **Exhibit B.**

The audit team inaccurately calculated these reimbursements by merely totaling all of the distributions from the CFC bank statements without investigating the specific attributes of or reasons for the distributions. A total of $530,918 of these distributions consist of principal repayments of a letter of credit that was obtained by MAP, the funds from which were withdrawn, deposited into the CFC account and used to pay Campaign expenses directly from the CFC account. Your audit team improperly included the letter of credit principal payback amounts as Campaign expenses. The letter of credit payments out of the CFC account should not be included in the aggregate total of reimbursements to MAP because such payments already had been counted at the time that such campaign expenses were paid using the letter of credit proceeds. OIG's approach results in double-counting of Campaign expenses, once when the expense is paid and again when principal repayments are made to the line of credit. In addition, the Draft Report's calculation of reimbursements includes $30,364 of disbursements to qualified MAP charities that were participating in the CFC. These amounts are not reimbursements for MAP expenses and should not be included in such calculations.

Finally, the audit team overlooked $66,973 of reimbursements in 2005 out of a CFC bank account held by MAP at US Bank,

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Reconciled Reimbursements			
	OIG Calculated Reimbursements	Actual MAP Reimbursements	Difference
2005	$112,730	$103,785	$8,945
2006	$256,065	$211,065	$45,000
2007	$283,197	$263,197	$20,000
2008	$610,515	$603,816	$6,699
2009	$888,900	$679,152	$209,747
2010	$851,520	$657,903	$193,617
2011	$633,997	$633,997	$0
2012	$624,216	$624,216	$0
Totals:	**$4,261,140**	**$3,777,131**	**$484,009**

The annual differences between the OIG and MAP figures are the result of the following adjustments:

- For **2005**, the OIG total must be reduced by a $75,918 letter of credit payment and increased by $66,973 of reimbursements from the US Bank account, for a net reduction of $8,945.

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- For **2010**, the OIG total must be reduced by a $190,000 letter of credit payment

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b. Supported Costs

The only expenses characterized in the Draft Report for 2005-2012 as "supported expenses" are those that were classified and entered into MAP's general ledger. This list is incomplete because it disregards all of MAP's CFC expenses that were either listed in the ledger as unclassified or erroneously omitted from the ledger by MAP's prior accountants, and it does not account for any allocations of administrative expenses. The audit team failed to properly understand or seek explanations for the transactions it cited as unsupported, which is understandable given the inconsistent and incomplete bookkeeping of the six different bookkeepers over the past eight years. Consequently, the audit team's calculation of 2005-2012 supported costs is substantially understated.

MAP staff has (i) meticulously gone through the ledgers, payroll records, bank statements, receipts and all other relevant documentation that were able to be located, (ii) reasonably allocated administrative expenses, (iii) and investigated and classified previously uncategorized expenses. Consequently, we have determined that MAP paid a total of $3,856,683 of CFC expenses between 2005 and 2012 and that the Draft Report understates MAP's CFC expenses by $1,783,098, as depicted in the following chart:

	Draft Report Supported Costs	MAP Actual Supported Costs	Difference
2005	$70,145	$272,785	$202,640
2006	$98,152	$284,745	$186,593
2007	$85,907	$255,632	$169,725
2008	$292,783	$460,066	$167,283
2009	$203,416	$764,966	$561,550
2010	$438,247	$679,608	$241,361
2011	$439,148	$606,852	$167,704
2012	$445,788	$532,029	$86,241
Total:	**$2,073,585**	**$3,856,683**	**$1,783,098**

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MAP's administrative expenses have been conservatively allocated 90% to MAP's CFC activities. As described above, there is very little institutional memory to draw upon to determine precise allocations for the past eight years, MAP's records are incomplete and have been incorrectly kept, and prior accountants failed to apply consistent accounting allocation methods to MAP's activities. Accordingly, we have questioned MAP's remaining staff and board to attempt to properly allocate administrative expenses between MAP and the CFC. We believe the 90-10% allocation to be a reasonable estimate of the substantial time and resources spent by MAP staff administering the Campaigns relative to MAP's other activities. MAP was a tiny organization prior to being chosen to act as a PCFO, raising approximately $60,000 in revenue each year to run a small art gallery and participate in a summer youth arts program. After being selected to act as PCFO, MAP's non-CFC activities were de minimis and primarily consisted of seeking funding support for its affiliated members through participation in local workplace giving programs in California. Between 2005 and 2012, MAP collected approximately $518,000 for its non-CFC activities, as compared to the $23,866,157 of pledges that MAP was able to garner for the CFCs during this time frame. This represents a relative allocation of 98-2, substantially less than the 90-10 ratio used. In addition, the majority of MAP employees spent between 90 and 100% of their time on CFC matters.

Thus, based on these adjusted calculations, MAP was not over-reimbursed for CFC expenses by $2,187,554 between 2005 and 2012, as asserted by the Draft Report, but was actually under-reimbursed by $79,552 during this time period.

c. Approved Budgets

As mentioned in the Draft Report, reimbursements should not exceed 110% of approved budgets unless approved by OPM. MAP acknowledges that 110% of the approved budgets for 2005-2012 is $3,256,644, and that MAP exceeded this threshold by $600,040 (but not by $1,055,279, as alleged by the Draft Report). However, all of these expenditures were reasonable and spent solely on CFC matters; therefore, this procedural breach did not cause damage to the Campaigns or their charitable recipients.

As stated previously, because there is no institutional memory to draw upon or other records to assist us in our investigation and there is, to our knowledge, no record of LFCC proceedings, it is difficult to reconstruct the regular business dealings between the LFCC and MAP as PCFO. It appears obvious from the facts that the LFCC was supportive of the campaigns and the PCFO, but it did not record or formalize its actions. We have learned from conversations with remaining staff that the MAP Executive Director, who is deceased, conducted most of her business with the LFCC via telephone calls with the LFCC chair, but no record was kept of these calls. We do not have any records of discussions between the LFCC and OPM and the LFCC has declined to participate in this response.

As an example of the informal method of conducting business between the LFCC and MAP, in each of the years between 2009 and 2010, MAP requested a campaign budget that was relatively static from year to year, but in each of these years actual expenditures exceeded budget. In each of these years, we believe such overruns were fully reported to the LFCC either during the relevant Campaign or in the year end reports that are used by the LFCC to review campaign results and as a basis for determining whether or not MAP would be reappointed as PCFO. However, consistent with its informal method of conducting its business, the LFCC did not record its approval of these increases in writing or, to our knowledge, seek approval of budget overruns in excess of 110% from OPM. It merely reappointed MAP as the PCFO.

We have included, as **Exhibit G**, an e-mail exchange of February 1, 2012 between OPM Compliance Specialist, [redacted] and MAP Executive Director, Michelle Walker, in which [redacted] suggests that [redacted] and Ms. Walker discuss certain budget overruns at an upcoming meeting with the LFCC. However, there is no indication of the year in question or the outcome of those discussions. The fact that OPM was aware of such overruns and was suggesting a means to get them approved indicates that the failure to receive formal approval from OPM was only procedural.

The fact that the LFCC reappointed MAP as PCFO in each of the years following the LFCC's receipt of final campaign reports should clearly indicate that the LFCC approved of such expenditures and OPM did not object, though we expect they were affirmatively approved by earlier informal action. As demonstrated herein, such expenditures were wholly devoted to the CFC.

Furthermore, MAP's 2005-2012 expenses were reasonable in amount. MAP's total Campaign reimbursements during this period equaled 15.8% of the Campaigns' pledges.[4] This is substantially less than expenses incurred by a significant number of other charities. Charity Navigator's data shows that 3 out of 10 charities that they have evaluated spend more than 25% of their budget on administrative and fundraising expenses, and 1 out of 10 spends over 35% of their budget on such expenses.[5] The Better Business Bureau states that in order to meet their Wise Giving Alliance Standards for Charity Accountability, an organization must spend no more than 35% of their total expenses on administrative and fundraising expenses.[6] The American Institute of Philanthropy's view is that 40% or less is a reasonable percentage for most charities to spend on fundraising and general administration.[7] MAP's average of 15.8% is particularly noteworthy given that a substantial amount of MAP's administrative expenses consisted of employee salaries, and wages in the San Francisco-San Mateo-Redwood City Metropolitan Area are approximately 44% above the nationwide average.[8]

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4 Campaign pledges between 2005 and 2012 totaled \$23,866,157 and MAP's CFC reimbursements equaled \$3,777,132.

5 http://www.charitynavigator.org/index.cfm?bay=content.view&cpid=48#.Uqr5Y9ko7Dc.

6 http://www.bbb.org/us/standards-for-charity-accountability.

7 http://charitywatch.org/ratingguide.html.

8 *Occupational Employment and Wages in San Francisco-San Mateo-Redwood City*, Bureau of Labor Statistics, May 1, 2013.

Moreover, OPM regulations do not currently require that PCFOs stay below a specific threshold for expenses (as a percentage of total support or otherwise). With respect to guidance regarding charities included in CFCs, OPM regulations prior to 2007 restricted participation in Campaigns to charities that kept their fundraising and administrative costs under 25%. This was the only standard in place to monitor the efficiency of the charities. In 2007, however, this eligibility criteria was relaxed, effectively opening the door for charities with higher percentages of expenses to gain entrance into the program. Now, charities that exceed 25% can participate so long as they publish their expenses in the campaign's documents. Thus, MAP's expense level of 15.8% is clearly reasonable and in line with OPM expectations.

The fact that MAP did not obtain formal approval for its budget overruns in 2009 and 2010 may be a ground for removal of MAP as PCFO, to replace the LFCC, or to note a procedural violation of the regulations in the final OIG report, but since all MAP expenditures were devoted solely to reasonable campaign expenses, no financial penalty is warranted.

2. 2011 Campaign Expenses

The Draft Report asserts that $107,426 of the CFC's expenses in 2011 were unsupported, unallowable, or improperly allocated. Of this total, the audit team proposes disallowing (a) $77,310 of expenses for lack of documentation, (b) $16,920 of expenses for lack of legitimate CFC purpose, and (c) $13,196 of expenses for improper allocations. As outlined in detail below and in **Exhibit I**, these findings are erroneous. The audit team failed to properly understand or review explanations for the transactions it cited as unsupported, improperly allocated, or otherwise unallowable.

a. Documentation

Citing a lack of documentation, the Draft Report disallows $77,310 in charges and asserts that these expenses were not supported by invoices to show that the costs were actual and legitimate CFC expenses. MAP's staff has spent substantial time locating records and substantiating expenses and, as detailed on **Exhibit I** and its attachments, has provided the audit team with e-mail and calendar documentation, meeting notes, travel itineraries, and photographic proof that MAP employees attended conferences, and relevant receipts, whenever possible. However, they have not located itemized receipts for each expense.

The OPM regulations provide that the responsibilities of a PCFO include maintaining "a detailed schedule of its actual CFC administrative expenses with, *to the extent possible*, itemized receipts for the expenses" (emphasis added).[9] While we would send all such receipts if they could be located, we have already explained the reasons why, in this case, this is not possible. Therefore, the audit team's requirement of itemized receipts exceeds the regulatory standard, especially given MAP's unique circumstances.

b. Unallowable CFC Expenses

The Draft Report concludes that $16,920 in 2011 charges are "not legitimate CFC expenses," including certain (i) accounting expenses, (ii) entertainment charges, (iii) promotional coins, (iv) car rental charges, (v) travel expenses, and (vi) certain miscellaneous expenses, including registration late fees, a flower purchase, shipping costs and an insufficient funds charge. As further detailed below and on **Exhibit I**, these charges should be allowable for the following reasons.[10]

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[9] 5 CFR 950.105(d) (7).

(i) Accounting Expenses

The audit team has disallowed $11,595 in accounting expenses, which amount was spent to correct changes make to MAP's records by Mr. [redacted] an accountant hired by the LFCC to audit the 2011 Norcal CFC.

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Because this expense was necessary to correct mistakes and fix books and records resulting from actions by an auditor working for the LFCC on the 2011 Campaign required pursuant to 5 CFR 950.105(d)(9), it should be an expense of the CFC.[11]

(ii) Entertainment Charges

The audit team has disallowed a $600 expense related to a kickoff event in September of 2011 as an excessive cost. Listed as a cost for DJ services, this expense was primarily for a sound system, which was necessary to communicate with the over-500 attendees at the event. It is not unreasonable or excessive to provide music and sound support for such large event.

Furthermore, OPM guidance provides, with respect to kickoff rallies, the following list of suggested activities: "tricycle races between different public law enforcement teams, giveaways of donated prizes, local popular tv or radio personality, and a musical segment (e.g., well-known band/vocalist)" and also recommends "[s]ecuring the services of a local personality to emcee the kickoff rally (e.g., radio host or DJ, local news program personality)."

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Although this guidance was removed pursuant to OPM Memorandum for Local Federal Coordinating Committees and Principal Combined Fund Organizations, "Directive Prohibiting the Approval of Costs Incurred for Meals and/or Entertainment" (March 28, 2012), the audit staff's attempt to apply these new rules to the 2011 Norcal CFC would retroactively and unlawfully change longstanding campaign practices. Therefore, this expense should be allowed.

(iii) Promotional Coins

The audit team has disputed a $1,379 charge for promotional coins used as donor recognition gifts. These coins were purchased for several CFCs, with MAP coordinating the purchase and receiving reimbursements from the other CFCs. The disputed $1,379 was for charges incurred by MAP as the organizer of this effort, including shipping the coins to the other CFCs. There was no agreement between the CFCs to share the shipping costs; therefore, it is unlikely that MAP can recoup these expenses from

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10 We note that the audit was conducted without sensible materiality limitations, thereby forcing MAP to research and respond to items that in many instances involved amounts of $20 or less. While MAP has responded fully to each item raised by OIG in the enclosed exhibits, no matter how small, we wonder whether the OIG staff would have been better served if it had concentrated on material items, thereby minimizing audit expenses for the government and for the Campaigns.

11 [redacted] engagement letter was with the LFCC and [redacted] has refused to share all of [redacted] work product with MAP based on the fact that the LFCC was his client.

the other CFCs. However, even with MAP incurring a large portion of these shipping costs, the coins were still obtained at a substantial discount as a result of the bulk purchase and resulted in costs savings to the 2011 Norcal CFC. Therefore, this is an expense clearly related to the CFC and should be allowed.

(iv) Car Rental Charges

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(v) Travel Expenses

The audit team has disputed $1,151 in travel expenses related to airfare upgrades, cancelled airfare, "excessive" per diem charges, and other travel expenses for MAP employees. These expenses were incurred for MAP staff attendance at national conferences, as detailed on **Exhibit I**. All of these charges are allowable as they were incurred in connection with and benefitted the CFC. As described below, MAP exercised fiscal prudence throughout the campaign and these expenses were not excessive.

As previously discussed with the audit team, the airfare upgrades were used to accommodate a staff member's physical needs to avoid potentially significant pain while flying and the staff member covered half of the cost of the upgrade personally.

The cancelled airfare was due to a staff member not attending a conference at the last minute due to a medical condition. The airfare, previously paid, could not be refunded due to the late cancellation. It would have been fiscally careless for MAP to purchase refundable tickets for all staff members, which tickets are generally twice or three times the cost of regular fares.

The Draft Report disallows $100 in per diem charges that are over the per diem limits in the U.S. General Services Administration travel rules applicable to federal employees. MAP staff members are not federal employees and there is no CFC regulation or OPM guidance requiring that this Federal threshold be used, a fact that the audit team acknowledged. It is merely the judgment of the audit team that OIG "would expect them to not charge the campaign more than the allowable per diem." Because this arbitrary rule is not found in CFC regulations, the full amount of these expenses should be allowed. If OPM wishes to impose such a limitation, it must do so prospectively, with notice to all PCFOs.

Finally, the audit team disallows $453 in hotel charges for extra days spent by an employee at a CFC conference which were outside of the conference dates. These should be allowable CFC costs as early or late arrival is often necessary to ensure prompt attendance at conferences and it is common practice to meet with OPM and LFCC representatives about CFC matters on these extra days. As evidenced by the e-mail exchange attached as **Exhibit G** between OPM Compliance Specialist, [redacted] and MAP Executive Director, Michelle Walker, in which [redacted] states, with respect to the San Antonio conference in February of 2012, that it "looks like everyone will be there the day before," and proposes that [redacted] Ms. Walker and an LFCC representative meet either the day before or the day after the conference to discuss MAP matters. Therefore, all of these travel costs were reasonable and necessary to effectively manage a successful Campaign and should, therefore, allowed.

(vi) Miscellaneous Expenses

The audit team has disputed $588 in expenses, consisting of registration late fees, a flower purchase, shipping costs and an insufficient funds charge. The $350 in late fees resulted from a medical emergency in Ms. Walker's family, which resulted in delayed registrations for certain conferences. The alternative would have been to not attend, which would have been detrimental to the Campaign.

The $64.15 charge for flowers was a token of expressed sympathy for a Loaned Executive who suffered a death in the family. It was an expense that furthered the relationship between the Loaned Executive program and the CFC and was, therefore, directly connected to the CFC.

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All of these costs, as well as the disputed $12 insufficient funds charge, are within a reasonable range of expenses needed to effectively manage a successful Campaign within the approved CFC budget and were all directly connected to the CFC. Therefore, the expenses should be allowed.

c. Allocation Percentages

The Draft Report also concludes that $13,196 of MAP's administrative expenses in 2011 were incorrectly allocated 100% to the 2011 CFC and calls for a re-allocation of expenses to the three Campaigns being run concurrently in 2011. The imposition of this proposed allocation system for 2011 would cause considerable inconsistencies among MAP's Campaign years and would require that MAP adopt a completely different allocation methodology from the one that it has consistently and reasonably applied.

OPM guidance does not require that PCFOs adopt a particular allocation system but merely provides that an allocation methodology must be reasonable and ensure that the CFC incurs a fair share of the costs.[12] Each CFC typically lasts for three years (including ramp up, donation and distribution periods). MAP has allocated 100% of its CFC administrative expenses every year to the particular Campaign that was commencing in such year based on the reasonable assumption that start-up activities for a Campaign are substantially greater than distribution and wind-up activities for the other on-going Campaigns. MAP's allocation methodology is reasonable and has been consistently applied during 2005-2012. The proposed changes to the 2011 expense allocations would necessitate making changes to all other calendar years to re-allocate expenses to the concurrently occurring Campaigns. This type of undertaking would be substantial, would involve significant accounting hours, and is not required by OPM regulations.

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C. <u>Campaign Receipts and Disbursements</u>

Recommendations 7, 8 and 9 of the Draft Report relate to Campaign receipts and disbursements and call for MAP to distribute outstanding checks, to follow guidance in CFC Memorandum 2006-5, and to correct a pledge form error. MAP agrees with these Recommendations.

1. Outstanding Check Procedures

The Draft Report refers to twelve outstanding checks in the amount of $7,653. MAP has been taking steps pursuant to the outstanding checks guidelines stated in CFC Memorandum 2006-5 and following up with the charities of these outstanding checks to determine if they are still active to redistribute this amount. If

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12 CFC Memorandum 2006-5(D) states that allocated expenses must be supported by a reasonable allocation methodology.

the charities are found to be inactive, MAP will distribute the funds as undesignated funds to the currently active Campaign. MAP is prepared to follow the guidance in Recommendations 7 and 8.

2. Pledge Form Error

Your staff identified an error in MAP's pledge form tracking system that resulted in a charity not receiving a disbursement of $2,600. MAP agrees that this pledge was overlooked and will ensure that funds are distributed to the appropriate charity to cover the pledge.

III. CONCLUSIONS AND ADDITIONAL CONSIDERATIONS

We would like to conclude our response by emphasizing a few key factors that should inform your preparation of the final report:

A. As demonstrated above and in the Exhibits, all or virtually all of MAP's expenses during the periods in question were dedicated to valid CFC expenditures.

B. MAP's aggregate CFC expenditures during the eight audited years exceeded the aggregate reimbursements it received by $79,552. MAP expended its own funds to cover this difference.

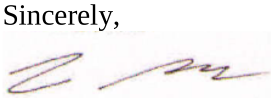
C. While MAP and the LFCC did not adequately document several aspects of the operation of the CFC, all of MAP's expenditures were for the CFC and reasonable in amount; and any failure to strictly comply with OPM regulations constituted only technical breaches and resulted in no damages to the Campaigns.

D. MAP is a small organization, the non-CFC activities of which are minor. It has very limited non-CFC funds with which to pay the proposed reimbursements.

E. The above conclusions reached by MAP, demonstrate that prior accounting issues identified by OIG have now either been corrected or OIG's initial erroneous interpretation of certain entries has now been full explained. Thus the Final report must be corrected and should assess no penalties on MAP

We would be happy to, and hereby request, a meeting with you and your staff in advance of issuance of your final report to ensure that the findings and recommendations therein fairly reflect MAP's record as PCFO for the CFCs at issue.

Sincerely,



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February 14, 2014

VIA EMAIL

Office of the Inspector General
United States Office of Personnel Management
1900 E Street NW, Room 6400
Washington, D.C. 20415-1100
Attn: [redacted]
Senior Team Leader, Special Audits Group

RE: Metropolitan Arts Partnership Response to Draft Report

Dear [redacted]

We are filing this letter on behalf of the Metropolitan Arts Partnership ("MAP") in response to the questions posed in your January 16, 2014 email regarding our January 6, 2014 response (the "Initial Response") to the tentative findings of your office in its Draft Report of September 27, 2013. We and the MAP staff and outside accountants will be available to you to respond to any further questions.

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3. **Explanation of $190,000 Withdrawal**

You have asked us to provide you with information regarding the $190,000 payment out of the CFC account on July 6, 2010. In our Initial Response, we stated erroneously that the $190,000 was for a repayment of a letter of credit. Our initial conclusion was based on the records that were available to us at the time, which records were incomplete. Upon receipt of your request for further information on January 16, 2014, we inquired further about this expense and discovered that a substantial portion of this amount was used by MAP to purchase a building for use as office space.[1]

Based on our conversations with current and former staff members of MAP, it is our understanding that MAP determined in 2010 that purchasing a building to use as office space would save substantially on rental expenses and discussed such a potential purchase with the LFCC. The conclusion reached by MAP and the LFCC was that such a purchase would be beneficial to the CFC as it would reduce rental expenses. The building was used primarily for CFC purposes because, as we discussed in the Initial Request, MAP's non-PCFO duties were minimal, as illustrated by the fact that its non-PCFO pledges constituted merely 2% of its overall pledges.

The decision made by MAP (and approved informally by the LFCC) to purchase the building has proven to be a wise investment as the CFC has been the beneficiary of lower rental expenses between 2010 and 2012, and the building has appreciated substantially in value. According to the U.S. Department of Housing and Urban Development Fair Market Rent Documentation System, the monthly fair market rent for the Sacramento area for a comparable building in 2010 was $1,719; in 2011 it was $1,737; in 2012 it was $1,689 and in 2013 it was $1,900. The CFC has only been paying $1,196 per month in rent in these years (which was principally debt service and taxes). By purchasing the building, the CFC has saved over $22,000 since the building was purchased in October of 2010. This constitutes approximately a thirty-three percent (33%) savings over market rentals.

MAP's purchase of the building is similar to a PCFO purchasing computers or other hard assets or equipment to be used solely for CFC purposes. If the PCFO is not extended for subsequent Campaigns, the computers purchased with CFC assets are transferred to the succeeding PCFO. In this instance, MAP would propose to repay the down payment to the CFC upon the closing of a sale of the building. The building is currently being offered for sale.

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1 The purchased property is a building zoned for commercial use located at 1911 18th Street, Sacramento, CA 95811.

APPENDIX C

Norcal Combined Federal Campaign
Local Federal Coordinating Committee (LFCC)

c/o San Francisco Bay Area Federal Executive Board
Ronald V. Dellums Federal Building
1301 Clay Street, Mail Room: 1400 N
Oakland, CA 94612

Serving Northern California's Federal Employees

Office of Personnel Management
Office of the Inspector General
ATTN: [redacted] Group Chief, Special Audits Group
Report No. 3A-CF-00-13-051

January 13, 2014

On behalf of the Norcal CFC LFCC, we are respectfully submitting the Local Federal Coordinating Committee response to your draft report detailing the preliminary results of the audit of the CFC campaigns administered by Metropolitan Arts partnership (MAP) as the Principal Campaign Fund Organization from 2005 through 2012. You have requested that we indicate in our comments whether we agree or disagree with the findings and recommendations, and provide any supplementary information to assist in your preparation of a final audit report. We appreciate the opportunity to provide this response, and thank you for the extensive review performed by your office and the guidance provided to our current LFCC for future campaigns.

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Overall comments: In general, we agree with the OPM-OIG audit process used to clarify annual campaign income and allowable expenses, as it involved a thorough review of all MAP bank accounts and MAP and CFC-related financial documents for each distinct campaign of 2005 through 2012. We agree with the problems identified in 1. Administrative Expenses Overcharges, but would add these two clarifications:

1. "Approval of Reimbursements" The statement "The PCFO did not request approval for, nor did the LFCC approve, the PCFO's reimbursement of campaign expenses throughout the PCFO's administration of the CFC." seems inaccurate to us. Our LFCC experience and past Cabinet meeting minutes show that MAP as PCFO did submit requests for, and the LFCC did discuss and authorize many, while not all, campaign-expense reimbursements.

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Historically, this LFCC practice was not to request or review each reimbursable receipt, but to review the "Statement of Revenue & Expenses," a summary financial report, and its companion "Campaign Actuals" monthly report, which tracked actual expenses versus approved budget.

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In the same section, there is a note that there were no LFCC meetings between January and July, when many important LFCC decisions must be made. While we cannot speak for the period before 2011 when we were LFCC members, we do know contact with the PCFO continued all year to address ongoing activity, such as the Admissions Chair's involvement with charity applications, approvals, denials, and appeals.

Along the same lines, we would disagree with MAP's attorney's response that "…neither MAP nor the LFCC kept formal records of actions or approvals, including approval of budget overruns though there is strong indication that such approvals were granted." [Scaner & Lubitz Responses letter to [redacted], January 6, 2014. Each year the PCFO's records and LFCC audit seemed to show they "brought the campaign in on budget." Like you, we are not aware that OPM's approval was ever requested to exceed 110% of the approved budget for each campaign year. Only during the 2011 IPA audit in 2012 did it become apparent that financial records provided by the PCFO and their accounting systems were inadequate to identify excessive campaign-year expenses that led to this audit's multi-year findings.

The following are our responses to the draft audit report's recommendations:

- **Recommendation 1…that the OCFC ensure that the LFCC institutes procedures to review and approve the future PCFO's reimbursements of actual CFC expenses.** The Norcal LFCC selected a new PCFO for the 2013 campaigns, and cabinet meetings between the PCFO (FES) and LFCC include detailed discussion of expected expenses, as well as review of provided financial documents including receipts for campaign expenses to be reimbursed. From this audit experience, we'd suggest specific financial oversight training for LFCCs, with written guidance of common problem areas, to ensure that LFCCs and PCFOs review receipts of every single expense incurred. As new LFCC members at the annual CFC conferences, we often met others similarly new to the process who took over mature campaigns and continued existing practices, as we did, which may not be sufficient to catch these kinds of problems.

- **Recommendation 2…that the OCFC ensures that the LFCC understands all of it responsibilities and that it meets regularly to supervise the PCFO and the progress of the campaign.** Similar to our response above, we'd emphasize more formal training for all LFCC members and written guidance: one has no awareness of what one doesn't know. MAP did meet regularly with the LFCC and did provide the LFCC with regular campaign financial reports of expenses, but these did not reveal each year's excesses until the audit in 2012. Since no IPA audit prior to 2012 raised concern, the same reporting practices continued.

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- **Recommendation 4…that the OCFC ensure the LFCC understands that the PCFO is not permitted to recover expenses in excess of 110 percent of the approved CFC budget unless approved by OPM.** In 2013 as the LFCC finally had to order MAP to cease spending, MAP Board President Kamilos argued with the LFCC that MAP's monthly financial reports showed there was still money left in the 2012 campaign, that they had not yet hit 100% of approved budget, let alone surpassed 110%. No one was seeing the excess of 100% because MAP's expense reports were unreliable, as found in the audit, and each campaign year's fiscal integrity was not maintained. The LFCC understands the 110% rule. The problem to correct is the availability of skills and resources to guide PCFOs to set up correct financial tracking systems, and having well trained IPAs who do annual audits and find problems when they occur, as well as providing guidance to LFCCs.

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- **Recommendation 10…that the OCFC ensure that the LFCC understands the requirement to have the PCFO maintain CFC funds in an interest-bearing account.** The LFCC has ensured that the new PCFO has an interest bearing account, and has received an explanation from OPM-OIG on where this requirement is implied. We have no idea why this was never a practice.

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Please let us know if we can provide additional information.

Respectfully submitted on behalf of the Norcal LFCC Chair, Jan Wright,

Francine Roby

Francine Roby
LFCC Member
Executive Director, San Francisco Federal Executive Board
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francine.roby@gsa.gov