U.S. OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS

Final Audit Report

AUDIT OF THE 2011 AND 2012 CHESAPEAKE BAY AREA COMBINED FEDERAL CAMPAIGNS

Report Number 3A-CF-00-14-050
December 23, 2014

-- CAUTION --

EXECUTIVE SUMMARY

Audit of the 2011 and 2012 Chesapeake Bay Area Combined Federal Campaigns

Report No. 3A-CF-00-14-050 **December 23, 2014**

Why Did We Conduct The Audit?

The main objective of the audit was to determine if the Chesapeake Bay Area CFC was administered in compliance with Title 5, Code of Federal Regulations, Part 950, including the responsibilities of both the PCFO and the LFCC.

What Did We Audit?

The Office of the Inspector General has completed a performance audit of the responsibilities of both the PCFO and LFCC in regards to Budget and Campaign Expenses, Campaign Receipts and Disbursements, Eligibility, and Fraud and Abuse for the 2012 campaign. Additionally, we reviewed the PCFO's activities as a Federation and the IPA's AUP audit of the 2011 campaign. Our audit was conducted from June 23-27, 2014 at the PCFO's offices in Baltimore, Maryland. Additional audit work was completed at our offices in Washington, D.C. and Cranberry Township, Pennsylvania.

What Did We Find?

We determined that the PCFO and LFCC need to strengthen their procedures and controls related to Budget and Campaign Expenses, Campaign Receipts and Disbursements, and Eligibility. Our audit identified eight areas requiring improvement.

1. Budget and Campaign Expenses
   - We identified 23 expense transactions, totaling $794, which were charged to the 2012 campaign in error.
   - The PCFO did not recover all 2012 campaign expenses from the gross receipts of the 2012 campaign.
   - The PCFO did not request nor did the LFCC approve the final reimbursement of campaign expenses to the PCFO.
2. Campaign Receipts and Disbursements
   - We identified 23 pledge forms with 8 types of errors.
   - We were unable to obtain evidence of the LFCC's approval for making and for setting the threshold for one-time disbursements for the 2012 campaign.
   - The PCFO did not properly release information for two donors.
   - Our review of special events identified 10 events that were not in compliance with the CFC regulations and Office of Personnel Management guidance.
3. Eligibility
   - LFCC Member attendance did not meet quorum requirements and meetings were not held during crucial periods of the campaign where oversight was needed.

Michael R. Esser
Assistant Inspector General for Audits

ABBREVIATIONS

5 CFR 950	Title 5, Code of Federal Regulations, Part 950
AUP	Agreed-Upon Procedures
CFC	Combined Federal Campaign
CFR	Code of Federal Regulations
EEX	Employee Express
FTE	Full Time Equivalent/Employee
IPA	Independent Public Accountant
LE	Loaned Executives
LFCC	Local Federal Coordinating Committee
OCFC	Office of the Combined Federal Campaign
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
PCFO	Principal Combined Fund Organization
SQFT	Square Footage
SSN	Social Security Number
UWCM	United Way of Central Maryland

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I. INTRODUCTION AND BACKGROUND

Introduction

This final report details the findings and conclusions resulting from our audit of the 2011 and 2012 Chesapeake Bay Area CFCs. The audit was performed by the OPM's 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. OPM's OCFC has the responsibility for management of the CFC. This responsibility 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 an LFCC and administered by a 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 LEs (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 LEs, 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 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. 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.

All findings from our previous audit of the Chesapeake Bay Area CFC (Report Number 3A-CF-00-038, dated June 6, 2006) have been satisfactorily resolved.

The initial results of our current audit were discussed with PCFO and LFCC officials during our exit conference on June 26, 2014. A draft report was provided to both the PCFO and the LFCC for review and comment on August 21, 2014. Their response to the draft report was considered in preparation of this final report and is included as an Appendix.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

Objective
The primary purpose of this audit was to determine compliance with 5 CFR 950.

Our audit objective for the 2011 campaign was:

Audit Guide Review

- To determine if the IPA completed the AUP as outlined in the CFC Audit Guide.

Additionally, our audit objectives for the 2012 campaign were as follows:

Budget and Campaign Expenses

- To determine if the PCFO solicitation, application, campaign plan, and budget were in accordance with the regulations.
- To determine if the PCFO 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 the pledge form format was correct and if the pledge form report agrees with the actual pledge form.
- 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.
- To determine if the member agencies and federations were properly notified of the amounts pledged to them and that donor personal information was only released for those who requested the release of information.

Eligibility

- To determine if the charity list (CFC brochure) was properly formatted and contained the required information.
- To determine if the charitable organization application process was open for the required 30-day period; if the applications were appropriately reviewed and approved; if the applicants were notified of the eligibility decisions in a timely manner; and if the appeals process for denied applications was followed.
- To determine if any non-federal employees or retirees were members of the LFCC.

PCFO as a Federation

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

Fraud and Abuse

- To determine what policies and procedures the PCFO 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 2011 and 2012. The UWCM, located in Baltimore, Maryland, served as the PCFO during both campaigns. The audit fieldwork was conducted at the PCFO's office from June 23 through 27, 2014. Additional audit work was completed at our Cranberry Township, Pennsylvania, and Washington, D.C. offices.

The Chesapeake Bay Area CFC received campaign pledges, collected campaign receipts, and incurred campaign administrative expenses for the 2011 and 2012 campaigns as shown below.

Campaign Year	Total Pledges	Total Receipts	Administrative Expenses
2011	$6,868,020	$6,585,444	$564,107
2012	$6,783,887	$6,432,572	$496,221

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, verified that the computer-generated data used in conducting the audit was reliable. Nothing came to our attention during our review of the data to cause us to doubt its reliability.

We considered the campaign's internal control structure in planning the audit procedures. We gained an understanding of the management procedures and controls to the extent necessary to achieve our audit objectives. We relied primarily on substantive testing rather than tests of internal controls. The audit included tests of accounting records and such other auditing procedures as we considered necessary to determine compliance with 5 CFR 950 and CFC Memoranda issued by the OCFC.

To accomplish our objective concerning the 2011 campaign (Audit Guide Review), we compared the IPA's working papers to the requirements of the CFC Audit Guide to verify that the AUP steps were completed and properly documented.

In regard to our objectives concerning the 2012 campaign's budget and campaign expenses, we performed the following procedures:

- Reviewed the PCFO's application to verify that it was complete.

- Reviewed a copy of the public notice to prospective PCFOs and the LFCC meeting minutes to verify that the PCFO was selected in a timely manner.

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

- Reviewed the PCFO's budgeted expenses, the LFCC's approval of the budget, and matched a sample of actual expenses to supporting documentation. Our sample included 57 transactions totaling $135,819 (from a universe of 571 transactions totaling $496,221) that were charged to the 2012 CFC. Specifically, our sample was judgmentally selected using the following methodologies:
    - ▶ We selected 26 transactions greater than $500, totaling $98,219, from Temporary Help, Sub-Contract, and Marketing accounts;
    - ▶ We selected 14 transactions greater than $200, totaling $5,278, from Local Transportation and Staff and Volunteer Development accounts;
    - ▶ We selected 10 transactions, totaling $3,617, based on nomenclature review;
    - ▶ We selected the two highest dollar transactions (six transactions in total), totaling $21,705, from allocated expense accounts (Salaries, Occupancy, and Depreciation); and
    - ▶ We selected all transactions (one), totaling $7,000, related to audit expense.

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

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

To determine if the 2012 campaign's receipts and disbursements were handled in accordance with CFC regulations, we reviewed the following:

- A sample of 151 pledge forms, with pledges totaling $550,891, out of a universe of 14,622 pledge forms, with pledges totaling $6,783,887, from the PCFO's 2012 campaign pledge form schedules and compared the pledge information from the schedules to the actual pledge forms. The PCFO maintained two pledge form schedules which together encompassed the total pledges made to the Chesapeake Bay Area CFC: one schedule that contained donation information from federal agencies which keep employee information confidential for security reasons and another schedule that contained donation information from federal agencies which did not keep employee information confidential (donor names were included). For purposes of the sample selection we will refer to the schedule without donor names as "anonymous" and the schedule that included donor names as "detail." Specifically, we judgmentally selected the sample utilizing the following methodology:
    - ▶ We selected the top 50 (high dollar) detail paper pledge forms, totaling $143,974;
    - ▶ We selected 26 detail pledge forms where duplicate charity codes were identified, totaling $6,356;
    - ▶ We selected the top 25 (high dollar) detail electronic pledge forms, totaling $145,902;
    - ▶ We selected the top 20 (high dollar) anonymous electronic pledge forms, totaling $146,228;
    - ▶ We selected 10 detail pledge forms from individuals with more than 2 pledge forms listed, totaling $657;
    - ▶ We selected all (eight) anonymous paper pledge forms with pledges greater than $3,000, totaling $95,069;
    - ▶ We selected four detail pledge forms where a designated amount was listed with no associated charity code, totaling $1,052;
    - ▶ We selected the top two (high dollar) detail electronic pledge forms with undesignated funds, totaling $5,200;
    - ▶ We selected the top two (high dollar) anonymous paper pledge forms with designated funds, totaling $5,898; and
    - ▶ If donors selected above had multiple pledge forms, we selected all remaining pledge forms for those donors. This resulted in the selection of four additional detail pledge forms, totaling $555.

- Distribution checks for a sample of 10 federations and organizations, totaling $2,040,996 in disbursed funds, out of a universe of 584 federations and organizations, totaling $5,934,599, to verify that the appropriate amount was distributed in a timely manner. We judgmentally selected 10 agencies or federations (the top international federation, the top international independent organization, the top national federation, the top national independent organization, the top 3 local federations, and the top 3 local organizations all with the highest total disbursement amount) receiving quarterly or monthly disbursements.

- One-time disbursements to verify that the PCFO properly calculated pledge loss and disbursed funds in accordance with the ceiling amount established by the LFCC.

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

- A sample of 10 pledge notification and donor letters (from a universe of 2,922) to verify that the PCFO accurately notified the organizations of the amounts due to them and properly released the donor information by the date required by the federal regulations. We judgmentally selected this sample by picking all 10 organizations pledged to by the first 3 individuals in our pledge form sample wishing to release their personal information.

- CFC receipts and distributions from the PCFO's campaign bank statements, campaign receipts and agency disbursements, and campaign expense support to verify whether the PCFO accurately recorded and disbursed all campaign receipts and disbursements.

- All bank statements used by the PCFO to verify that the PCFO was properly accounting for and distributing funds.

- The PCFO's cutoff procedures and bank statements to verify that funds were allocated to the appropriate campaign.

To determine if the LFCC and PCFO were in compliance with CFC regulations regarding eligibility for the 2012 campaign, we reviewed the following:

- The public notice to prospective charitable organizations to determine if the LFCC accepted applications from organizations for at least 30 days.

- Campaign charity lists to determine if they contained all required information.

- The PCFO's responses to questions regarding the process and procedures for the application evaluation process.

- A sample of 10 local organization applications (from a universe of 208 local organization applications) to determine if the organizations met the requirements for participating in the CFC and if the LFCC sent the eligibility letters by the date required by the federal regulations. We judgmentally selected the top five local federations and the top five local organizations with the highest amounts designated in the 2012 campaign.

- The LFCC's processes and procedures for responding to appeals from organizations.

- The LFCC member listings to verify that all members were active federal employees.

To determine if the UWCM was in compliance with the CFC regulations as a federation for the 2012 campaign, we reviewed the following:

- Data reported on the CFC Receipts Schedule, with supporting documentation, to verify that receipts were properly recorded.

- The CFC Receipts Schedule and the total amounts received per campaign on the Federation Distribution Schedule to determine if the percentage of receipts assigned to each organization for each campaign agrees to the percentage of pledges for that organization from that campaign.

- Federation receipts for a sample of 17 receipts, totaling $297,578 (out of a universe of 23 receipts, totaling $414,821), to verify that the amounts received from each campaign were accurately reported. Receipts were received from five campaigns, monies from four campaigns were received monthly and a single distribution of receipts was received from the remaining campaign. We judgmentally selected the four largest receipts from the four campaigns which provided funds monthly and the lone receipt distribution from the remaining campaign.

- Distribution checks for a sample of 10 federation member agencies (totaling $240,006), out of a universe of 56 (with disbursements totaling $378,484), to verify that the appropriate amount was distributed in a timely manner. We judgmentally selected the top 10 federation members which received the most disbursements in the 2012 campaign. Additionally, we only reviewed the disbursement checks from the four months with the highest monthly disbursement amount (July 2013, August 2013, November 2013, and January 2014).

- The PCFO's annual report and agreements with its member agencies to determine if member fees were reasonable and supported.

Finally, to determine if the policies and procedures related to the detection and prevention of fraud and abuse were adequate, we reviewed the PCFO'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

A. AUDIT GUIDE REVIEW

Our review of the IPA's examination of the CFC Audit Guide's AUP did not identify any deviations from the required review.

B. BUDGET AND CAMPAIGN EXPENSES

1. Administrative Expenses $794

We identified 23 expense transactions, with unallowable costs of $794, which were charged to the 2012 campaign in error.

5 CFR 950.106(a) states that the expenses recovered by the PCFO shall reflect ***the actual costs*** of administering the campaign. (Emphasis Added)

Additionally, in a Memorandum dated March 28, 2012, OPM stated that none of its prior guidance to PCFO's authorized the expenditure of CFC funds "for meals served as a convenience to members of the LFCC, or to employees of the PCFO or to the loaned executives and other CFC volunteers." Therefore, no meal costs, before or after the date of the memorandum, would be allowable costs to the CFC if for members of the LFCC, PCFO employees, LEs, or other CFC volunteers.

Finally, 5 CFR 950.604 states the PCFO shall retain documents pertinent to the campaign for at least three completed campaign periods.

We reviewed the expense sample to determine if the expenses charged were properly supported, accurately allocated using a reasonable methodology, valid CFC expenses, charged to the correct campaign, part of the original budget categories, and were allowable expenses. Our review identified 23 expense transactions that were incorrectly charged to the CFC resulting in $794 in unallowable expenses. Specifically, we identified the following:

- Incorrect Allocations totaling $438.
    - ▶ Occupancy Expense: The 12 occupancy expense transactions charged to the CFC were based on the budget rather than the actual amount. Specifically, 1/12 of the budgeted amount was charged to the CFC on a monthly basis. As a result, the CFC was overcharged $438.

- Payroll Transactions: We identified the following areas of concern in regards to the payroll transactions reviewed.

  1. The PCFO applied an incorrect allocation percentage to one employee during one of the five payroll periods reviewed. Per discussion with the PCFO, its payroll system during this time frame was a more manual system than it is now. Its current system has all of the allocations pre-programed and set. However, the old system required the allocation to be entered and it could be changed or entered incorrectly. The PCFO doesn't know why the percentage for this employee doesn't match the allocation record. The overall effect of the error was immaterial. However, the issue is questioned procedurally.

  2. The PCFO was unable to provide supporting documentation for the allocations of three employees for two of the five payroll periods reviewed. Therefore, we could not verify the accuracy of the allocations to the CFC. The PCFO stated that the staff person charged with holding the allocation documentation has retired, and that it is unable to locate the documents to support the allocations for these employees. Additionally, of those employees, one did not have a consistent allocation rate, as would be expected during the same payroll periods.

- Unallowable Expenses totaling $356.

  - Bus Tour: We identified one transaction, totaling $220, related to a bus tour offered to federal employees so that they might be more educated about the needs of the community and how some charities are addressing those needs. This cost is unallowable because, although informative, it is not a necessary cost of operating the campaign. Additionally, the cost was charged to the incorrect campaign as the tour was conducted in February 2013, after the close of campaign contributions for the 2012 campaign. As a result, this cost is unallowable.

  - Meals: We identified two transactions, totaling $136, related to meals provided to the LFCC. OPM stated in its memorandum of March 2012 that although its previous guidance allowed for meals related to campaign events (i.e., kickoff events or awards ceremonies), that guidance ***did not authorize*** the expenditure of funds for meals served as a convenience to members of the LFCC, employees of the PCFO, LEs, or other CFC volunteers. Discussion with the PCFO determined that it felt that the OPM memorandum was intended for campaigns going forward and did not apply to the 2012 campaign. We disagree and maintain that these meals have always been, and continue to be, unallowable costs.

- General overhead expenses not allocated between campaigns properly:

  - ▶ We identified 20 transactions related to general overhead expenses (payroll, occupancy, and depreciation) that were allocated fully to the 2012 campaign rather than to the multiple campaigns active at the time. Fifteen of these transactions are included in the incorrect allocations issue above and will be questioned in a separate finding (*Improper Matching of CFC Receipts and Expenses*).

As a result of the 23 transactions identified, the CFC was overcharged $794.

Recommendation 1

We recommend that the OCFC and LFCC ensure that the PCFO reimburses the CFC $794 related to the unallowable charges and incorrect allocations identified in the finding.

PCFO/LFCC Response:

The PCFO and LFCC agree with this recommendation as it applies to the amounts questioned for the bus tour and meals and state that the PCFO will reimburse the CFC for these charges. Additionally, the LFCC states that it will ensure this type of expense is not approved for future campaigns. However, the PCFO disagrees with the amounts questioned related to occupancy expense. The specific reasoning for this disagreement is addressed in its response to Recommendation 3.

OIG Comments:

We accept the PCFO and LFCC response in regards to the bus tour and meals. However, we do not agree with the PCFO's assessment of occupancy expense. Our specific objections will be addressed in our comments to Recommendation 3.

Recommendation 2

We recommend that the OCFC and LFCC ensure that the PCFO has procedures in place to ensure that meals provided to members of the LFCC, PCFO employees, to LEs, or to other CFC volunteers are not charged to the CFC in the future.

LFCC Response:

The LFCC agrees with this recommendation and states that it has not approved any costs for meals since the issuance of the Memorandum regarding meal and/or food expenditures, and that it will not approve any cost of this type for future campaign budgets.

OIG Comments:

We accept the LFCC's response. However, the LFCC should note that its responsibility to ensure that these costs are not charged to the CFC extends beyond the campaign budget. It should also institute procedures to ensure that expenditures submitted by the PCFO are reviewed to ensure that these types of costs are not reimbursed to the PCFO as well.

Recommendation 3

We recommend that the OCFC and LFCC direct the PCFO to ensure that all allocations charged to the CFC are based on actual amounts and not budgeted amounts (especially for general overhead allocations).

PCFO Response:

The PCFO disagrees with this recommendation and states that occupancy expense was based on a reasonable allocation methodology approved by the LFCC that was applied consistently throughout the campaign. Specifically, the PCFO maintains that the allocation methodology used to determine an appropriate share of occupancy expense is outlined during the budget process and is approved by the LFCC. It is a mathematical calculation that includes a combination of FTEs, SQFT, and space for LEs. Once the amount of the expense is calculated, the expense is converted into a percentage. The percentage is then applied against the monthly invoice. Because the monthly invoice to the PCFO has no variable cost components within it, the expense will not fluctuate during the campaign. Therefore, the budget and the actual expense would be the same.

Consequently, "The PCFO is following CFC regulation 5 CFR 950.106 permitting the PCFO to recover the actual costs for administering the campaign and CFC Memo 2013-04 stating that the actual costs need to be reasonable, allowable and necessary. Reasonable is measured by what is appropriate or fair. In determining what is appropriate and fair, the PCFO used the best information available to provide the percentage of occupancy expense being allocated to the campaign using square footage, PCFO staff and the LE space, providing the calculation used for reasonableness, and the statement that the total expense reflected in the allocation included the LE space. During the budget proposal process, the LFCC did a detailed review of our allocation and approved our methodology as being reasonable and fair. That allocation which represents the actual use of the allocated space, represented as a percentage of the entire square footage of the space, was appropriately applied to the monthly invoice for occupancy."

OIG Comments:

We disagree with the PCFO's opinion regarding this recommendation. It states that "Once the amount of the expense is calculated, the expense is converted into a percentage." This is not correct. Actually, the estimated FTEs utilized by the CFC are converted into a percentage and that percentage is multiplied by the total SQFT of the PCFO's office space. The utilized SQFT total is then multiplied by the rate per square foot in the PCFO's lease agreement to determine occupancy expense. The PCFO then adds a six percent fee for operating expenses related to the CFC's occupancy of its space to get to a total and actual occupancy expense. The table below illustrates the various components and totals for the occupancy expense:

Occupancy Expense Illustration				
	OIG Calculation	PCFO Calculation	PCFO Rounded Totals	Occupancy Expense Overcharge to the CFC
Rate Per SQFT	$19.23	$19.23		
CFC FTE Percentage	4.68%	4.68%		
Total SQFT	31,721	31,721		
CFC SQFT	1,485	1,485		
CFC Occupancy Cost	$28,548	$28,548	$29,000	
CFC Operating Expense (6%)	$1,713	$1,713	$1,700	
"Actual" Occupancy Expense	$30,261		$30,700	$438[1]
Monthly Occupancy Expense (Actual/12)	$2,522		$2,558 →	Equals amounts charged to CFC by the PCFO in April 2012 through February 2013 (11 months).

The PCFO in its budget process rounded both occupancy and operating expenses (occupancy expense from $28,548 to $29,000 and operating expenses from $1,713 to $1,700) to a total of $30,700 (versus $30,261). The $30,700 was then charged to the CFC in monthly installments at $2,558 per month (except for March 2012 which was based on a prior year occupancy expense calculation). The PCFO is confusing its rounded figures for actual costs in its calculation. It would be correct if it used the "actual" costs, but rounded amounts are not actual costs and caused the PCFO to charge the CFC $438 in excess of the actual occupancy expense amount.

[1] The actual amount charged to the CFC was $30,699 (due to $2,557 charged in March 2012 and rounding).

Lastly, the PCFO states that because CFC Memorandum 2013-04 indicates that actual costs need to be reasonable, allowable and necessary, and it believes that its allocation methodology is reasonable, then the costs should not be questioned. We disagree and maintain that the PCFO misconstrued the intent of the Memorandum. The Memorandum is not talking about unreasonable allocations, but unreasonable expenses that are exorbitant and excessive, which is not the case in this finding. The issue here is simply that the amount charged to the CFC was based on a total actual allocated expense that was rounded up (nearly $500) and then charged as a monthly fee to the CFC, rather than charging the CFC 1/12 of the actual allocated expense total. The PCFO's responsibility is to charge actual costs to the CFC, and that was not done by it in regards to occupancy expense.

Recommendation 4

We recommend that the OCFC and LFCC ensure that the PCFO reviews its payroll allocations made during the current campaign to ensure that all allocations to the CFC are accurate by correcting any errors identified.

PCFO Response:

The PCFO partially agrees with this recommendation. It states that "Once the campaign budget is approved, payroll allocation updates are made to the automated Payroll system. Any adjustments or changes in staffing during the year will be made by the Accounting staff to ensure the records are accurate and to correct any errors. The PCFO will review the staff allocation quarterly, ensuring the allocations in place accurately reflect any staff changes. The LFCC will ensure this review has been performed in quarterly budget/contract review meetings." Additionally, the "PCFO believes that this was a unique and unusual circumstance, as the result of a more manually-based process being used, and the instance cited occurred outside of our normal procedures and thus the partial agreement."

OIG Comments:

The PCFO's statement that the allocation variance identified was outside its normal procedures is not correct. Based on discussions with the PCFO (as stated in the finding), the payroll system changed from a manual-based system to a more automated system during the scope of our audit. System changes are a normal part of business operations and are not a "unique and unusual circumstance" that would alleviate the PCFO of its responsibility to accurately report costs to the CFC.

Recommendation 5

We recommend that the OCFC and LFCC ensure that the PCFO maintains backup copies of all allocation methodology records in order to comply with records retention requirements included in the CFC regulations.

PCFO Response:

The PCFO agrees with this recommendation and states that the LFCC has directed it to maintain historical allocation calculations and changes that comply with the CFCs documentation retention requirements.

2. Improper Matching of CFC Receipts and Expenses **Procedural**

The PCFO did not recover all 2012 campaign expenses from the gross receipts of the 2012 campaign.

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

Additionally, CFC Memorandum 2008-09 goes on to clarify this regulation by stating that expenses for the campaign are incurred over a two-year period (for the 2012 campaign this would be March 2012 through March 2014). It should be noted that during any one calendar or fiscal year there are always, at least, two campaigns operating at the same time. Concurrently, one campaign is starting up planning and collecting pledges while another campaign is receiving and disbursing funds. Therefore, the costs should not only be allocated between the CFC and the PCFO's other lines of business, but also between the different CFC campaigns operating simultaneously.

The expenses charged to the 2012 campaign included some expenses related to either prior or future campaigns.

Specifically, we found that the PCFO charged the 2012 campaign all expenses recorded between March 1, 2012 and March 31, 2013. Additionally, our expense review identified transactions related to general overhead expenses (salaries, benefits, occupancy, and depreciation) that were not allocated between the multiple campaigns operating during the lifecycle of the 2012 campaign. Instead, all general overhead expenses were charged fully to the 2012 campaign.

The PCFO indicated that its payroll system doesn't track using a time and effort system, but rather an FTE allocation is made based on the total estimated time devoted to CFC work for each staff position (evaluated yearly). To the extent possible, the PCFO separates expenses that are directly allocable to a specific campaign. However, expenses incurred that are related to more than one campaign are allocated to the campaign currently in operation.

As a result of not properly matching CFC receipts and expenses, the PCFO did not accurately report the expenses related to the 2012 campaign.

Recommendation 6

We recommend that the OCFC and LFCC direct the PCFO to institute policies and procedures in its expense system to accurately track and record campaign expenses throughout the two-year campaign period.

PCFO Response:

The PCFO partially agrees with this recommendation. It states that "To the extent possible" it will work to allocate campaign expenses among campaigns that are running concurrently. Additionally, the PCFO states that it will determine the most effective and efficient way to ensure the greatest accuracy when allocating costs between concurrently running campaigns. The LFCC states that it will ensure that a methodology is identified and implemented for future campaigns. However, the PCFO is concerned that its accounting system may not have the capabilities to address the recommendation completely.

OIG Comments:

While the PCFO states that it will work to comply with the recommendation, its statement that it will make this effort "To the extent possible" concerns us. The UWCM in its PCFO application agreed that it would follow the directions of OPM (which include the regulations), not that it would follow the directions of OPM "to the extent possible." We understand that there may be complications which might make our recommendation difficult to implement within the PCFOs accounting system. However, this does not preclude the PCFO from then further allocating costs (manually) between campaigns running concurrently, which may require the PCFO to maintain a cross walk to its system-generated reports.

3. LFCC Approval of Campaign Expense Reimbursement **Procedural**

The PCFO did not request nor did the LFCC approve the final reimbursement of $3,608 to the PCFO for the 2012 campaign expenses.

According to 5 CFR 950.106(a), "The PCFO shall recover from the gross receipts of the campaign its expenses, approved by the LFCC, reflecting the actual costs of administering the local campaign."

The LFCC did not formally review or approve the PCFO's final campaign expense reimbursement.

Additionally, 5 CFR 950.104(b)(17), states the LFCC is responsible for "Authorizing to the PCFO reimbursement of only those campaign expenses that are legitimate CFC costs and are adequately documented."

We reviewed the meeting minutes and supporting documents to determine if the LFCC authorized the PCFO's reimbursement of campaign expenses. Our review found that the LFCC did approve the reimbursement of $488,613 in May 2013. However, the LFCC did not provide supporting documentation of the approval of the final expense reimbursement to the PCFO for the amount of $3,608 made in March 2014.

The LFCC stated that this reimbursement was mentioned to other LFCC members and discussed informally with the PCFO. However, it was unable to provide any documentation supporting an official approval by the LFCC.

As a result of the LFCC not reviewing and approving the final expense reimbursement, unallowable, non-CFC, or non-2012 campaign expenses could have been reimbursed to the PCFO.

Recommendation 7

We recommend the OCFC ensures that the PCFO understands that it must submit all expense reimbursement requests to the LFCC for review and approval prior to making reimbursement of those expenses.

PCFO/LFCC Response:

The PCFO and LFCC agree with this recommendation and state that future requests for reimbursement will be fully documented in writing to the LFCC.

Recommendation 8

We recommend that the OCFC ensures that the LFCC understands its responsibility to authorize and approve all PCFO campaign expense reimbursements for all future campaigns.

PCFO/LFCC Response:

The PCFO and LFCC agree with this recommendation and state that future requests for reimbursement will be approved by the full LFCC at a scheduled and convened LFCC meeting.

C. CAMPAIGN RECEIPTS AND DISBURSEMENTS

1. Pledge Form Errors — Procedural

Our review of the PCFO's pledge form database identified 23 pledge forms with 8 types of errors.

We reviewed a sample of pledge forms to determine if the actual pledge form data matched the PCFO's pledge database. Specifically, we determined if the following pledge form data agreed to the database information:

- donor name;
- charity code number and amount donated;
- total amount donated; and
- donor's choice to release or not to release name, home address, email address and/or pledge amount.

Finally, we also reviewed the pledge forms to determine if any changes or edits identified were made by the donor only, if the paper pledge forms reviewed did not include more than five designations (per form), and if the donor signed the payroll deduction authorization (if a payroll deduction was required).

Our review of the pledge forms identified the following errors:

Charity Designations Recorded Incorrectly

- Four pledge forms were recorded incorrectly in the pledge form database. Specifically, the charity code indicated by the donor was missing (blank), the annual amount to the charity was incorrect and an invalid amount was included as undesignated funds.

- One pledge form where the donor entered "N/A" as the amount to be donated to a charity. However, the total gift amount was input as the amount donated to the charity in the pledge form database rather than inputting a donation amount of $0.

Cash Donation Not Recorded

- One pledge form where an amount donated via cash or check was not recorded in the pledge form database.

Pledge Form Alterations

- We identified eight pledge forms where alterations to either the total gift or annual amount were noted. However, we could not determine who made the changes.

5 CFR 950.105(d)(1) states that the PCFO is responsible for "honoring employee designations."

Additionally, 5 CFR 950.105(d)(3) states that the PCFO is responsible to make sure "keyworkers are trained to check to ensure the pledge form is legible on each copy ...."

As a result of the pledge form input errors identified, undocumented alterations on the pledge forms, and missing charity codes, the PCFO did not accurately honor all donors' wishes as required by the regulations.

Recommendation 9

We recommend that the OCFC and LFCC direct the PCFO to review and strengthen its existing procedures to ensure that its pledge form database reflects the actual pledges made by the donors on the pledge form.

PCFO/LFCC Response:

The PCFO and LFCC agree with this recommendation. The PCFO states that it has provided the vendor tasked with data entry of pledge information procedures and guidance in the past related to the importance of accurate data entry and has reemphasized them. Additionally, the PCFO monitors the accuracy of the data entry and provides the vendor guidance with regards to any recurring issues and the requirements of the regulations.

However, the PCFO and LFCC disagree with the four pledge forms questioned as "Charity Designations Recorded Incorrectly." For each of the pledge forms, the 501(c)(3) status of the charity pledged to was revoked during the distribution of funds to the charities. As a result, the PCFO states that it moved the unpaid designation balance to undesignated funds.

OIG Comments:

We appreciate that the PCFO and LFCC have reemphasized procedures with its pledge form data entry vendor. However, this does not answer our recommendation to strengthen the procedures, but merely continues the practice which allowed the errors to occur in the first place.

In regards to the pledge forms disputed by the PCFO and LFCC, we were not provided any documentation to support the claims made and cannot remove them from the finding.

Recommendation 10

We recommend that the OCFC and LFCC direct the PCFO to institute procedures related to pledge forms with alterations that cannot be verified as made by the donor, to ensure that the changes were made by the donor. The procedures could include having the keyworkers ensure that pledge forms are initialed by the donor if changes are present or by sending pledge forms back to the donor for verification.

PCFO/LFCC Response:

The PCFO and LFCC agree with this recommendation. The LFCC states that it provided guidance at the start of the current campaign (2014) to the PCFO, LEs, and campaign volunteers in regards to pledge form mathematical accuracy, changes, number of pledges per form, and ensuring designated amounts match the total gift on the pledge form. In the case of any form that requires correction, it will be returned to the donor, updated, and initialed by the donor and not a campaign volunteer.

Mathematical Errors Handled Incorrectly

- We identified one pledge form where the total gift and annual amount to the charity were input incorrectly. According to the pledge form, the donor's total gift was \$2,499.96. However, the "annual amount" to the charity was \$2500. The PCFO did not recognize the total gift as \$2,499.96 and adjust the charity designation as required by the regulations.

- We identified one pledge form where the total gift was \$2,000.18 with designations of \$400.036 to five charities. Rather than reduce all five charity designations to \$400.03

(with $0.03 as undesignated funds), the PCFO rounded four up to $400.04 and one down to $400.02.

5 CFR 950.402(d) states "In the event the PCFO receives a pledge form that has designations that add up to less than the total amount pledged, the PCFO must honor the total amount pledged and treat the excess amount as undesignated funds." Additionally it states, "In the event that a PCFO receives a pledge form that has a total amount pledged that is less than the sum of the individual designations, the PCFO must honor the designations by assigning a proportionate share of the total gift to each organization designated."

As a result of not properly handling pledge forms with mathematical errors, the PCFO did not follow the requirements of 5 CFR 950.402(d) and did not meet its responsibility of honoring employee designations.

Recommendation 11

We recommend that the OCFC and LFCC direct the PCFO to ensure that its data entry processors understand the requirements of 5 CFR 950.402(d) and that the information input in the pledge form database is adjusted correctly in those cases.

PCFO/LFCC Response:

The PCFO and LFCC agree with this recommendation. As previously stated in its response to recommendation number nine, the PCFO has reemphasized the data entry procedures to its pledge form data entry vendor. Additionally, as previously stated in its response to recommendation number 10, the LFCC provided guidance to its campaign volunteers to ensure that designated amounts match the total gift on the pledge form, as well as to verify pledge form mathematical accuracy.

OIG Comments:

We appreciate that the LFCC has made mathematical accuracy a point of emphasis with its campaign volunteers. However, we recognize that pledge forms with mathematical errors will slip through occasionally, and simply reemphasizing procedures that do not appear to be working properly to its data entry vendor does not seem adequate.

Donor Release of Information Incorrectly Recorded

- We identified three pledge forms where the pledge form database incorrectly indicated the release of the donor's email address when the donor did not provide that information.

Specifically, the pledge form database maintained by the PCFO indicated "Yes" in the column which designated if a donor chose to release any information to a charity when the donor did not include any information to be released (no address or email address was provided by the donor).

5 CFR 950.105(d)(6) states that the PCFO is responsible for "Honoring the request of employees who indicate on the pledge form that their name, contact information and contribution amounts not be released to the organization(s) that they designated."

As a result of incorrectly indicating the release of the donor's email address, the PCFO ran the risk of charities contacting the employees without their consent.

Recommendation 12

We recommend that the OCFC and LFCC direct the PCFO to institute procedures to ensure that its pledge form database includes "Yes" indicators for release of donor information (address or email address) only when that information is provided by the donor.

PCFO/LFCC Response:

The PCFO and LFCC disagree with this recommendation and state that the data entry system used is preset with a "no" indicator for release of address, email, and/or amount pledged. The system requires the "no" indicator to be changed to "yes" if the donor chooses to release personal information and they feel that this process ensures the strongest ability to avoid the unauthorized release of information. However, they agree that the three pledge forms reviewed incorrectly indicated the release of donor information.

OIG Comments:

The response of the PCFO and LFCC is concerning to us as they feel that the present process, which permitted the release of donor information improperly, is adequate. We understand that this is a manual system (for paper pledge forms). However, the lack of concern presented by the PCFO and LFCC in regards to the issue is alarming. According to the regulations, the PCFO is responsible for honoring the request of employees who indicate on the pledge form that their personal information **not be released** to charities. However, errors made by inadvertently releasing donor information are critical, because those individuals may choose to not donate to the CFC in the future as a result of the error.

Payroll Copy of Pledge Form Not Forwarded Properly

- We identified two pledge forms where the payroll office copy of the pledge form (white copy) was maintained by the PCFO for a donation made via payroll deduction. The payroll office copy of the pledge form includes an area for the donor's SSN, while all backing copies have that information redacted (blacked out).

5 CFR 950.901(c)(1) states, "The CFC Pledge Form, in conformance with §950.402, is the only form for authorization of the CFC payroll allotment ...."

Additionally, 5 CFR 950.901(c)(2) states "The original copy of each paper pledge form (payroll allotment authorization or an acceptable electronic version) should be transmitted to the contributor's servicing payroll office as promptly as possible ...."

Finally, the 2012 CFC Brochure states that the PCFO "will ensure delivery of the correct copy to the payroll office." Therefore, the correct copy to be delivered to the payroll offices is the white copy that does not redact the SSN.

As a result of the PCFO retaining the "payroll office" copy, it ran the risk of accidentally releasing the donors SSN and not providing the payroll office with pertinent information to ensure that the payroll deductions would be recognized.

Recommendation 13

We recommend that the OCFC and LFCC ensure that the PCFO has instituted procedures to ensure that all "Payroll Office" copies of pledge forms with payroll deductions are sent to the appropriate payroll office and not maintained by the PCFO.

PCFO/LFCC Response:

The PCFO and LFCC agree with this recommendation and state that the LFCC has provided guidance to the PCFO and campaign volunteers to ensure that the payroll copies of paper pledge forms are sent to the appropriate payroll offices. However, the PCFO disagrees that these forms were the actual payroll copies, and states that they were actually photocopies of the payroll forms.

OIG Comments:

We do not agree with the PCFO's contention that the pledge form copies maintained are photocopies and not original pledge forms, as this was not identified during our review.

However, if the pledge forms reviewed were photocopies, the PCFO is then also in violation of CFC Memorandum 2007-08 because the pledge forms maintained included donor SSNs. According to the memorandum, "Campaigns are reminded that it is not permissible to collect, store, or temporarily use a donor's SSN. Any campaign collecting or storing donor SSNs must immediately remove and permanently destroy such records, whether held in electronic or paper format."

Discrepancy Between Pledge Form and Actual Donor Information

- We identified one pledge form where the donor's information on the pledge form did not match the actual check information (two different individuals). Additionally, as the pledge form indicated the release of address, the information released would not be for the actual donor of the funds in question.

In response to our Pledge Form Policies and Procedures Questionnaire, the PCFO stated that when checks are collected it matches the check to the pledge form to ensure completeness.

As a result of not accurately matching the pledge form to the check information, the PCFO released the wrong individual's information to the charity.

Recommendation 14

We recommend that the OCFC and LFCC ensure that the PCFO follows its stated policies and procedures to ensure that it matches pledge form data to donor checks to ensure that the data input in the pledge form database is correct.

PCFO/LFCC Response:

The PCFO and LFCC agree with this recommendation. The LFCC states that it has directed the PCFO, LEs, and campaign volunteers to match pledge form names with those on checks in support of the forms. Additionally, the LFCC has directed that a notation be placed on the pledge form and the associated check if received in support of a special event.

However, the PCFO and LFCC disagree that the pledge form identified was in error. They believe that the pledge form identified was payment in support of a special event that the pledge form represented, and included a combination of cash and donor check information that reflected the overall total collected for the event.

OIG Comments:

We appreciate that the PCFO and LFCC agree. However, the procedures that the LFCC has outlined, regarding matching pledge form names with those on the check in support of the forms, is the procedure that was not followed for the pledge form questioned. The LFCC has not explained what will be done to ensure that the procedure is followed.

In regards to the disagreement with the pledge form identified in error, the PCFO and LFCC are incorrect. The pledge form questioned was for $14 (listed as "Check/Cash") and included the check number of the check (copy) which was also included in the documentation maintained by the PCFO. Therefore, the contention that the pledge form questioned represented the total collected at a special event is unfounded.

<u>Excess Pledges on Paper Pledge Form</u>

- We identified one pledge form which had six designations when, according to the CFC brochure, only a maximum of five designations are allowed on a pledge form.

According to the 2012 CFC Brochure, "Additional designations may be completed on a second pledge form." It also states, "To give to more organizations than can be added to the pledge form, complete additional pledge forms and staple them together. The top pledge form must contain the sum of all pledges."

Additionally, the PCFO's website states "You may designate to the organizations of your choice where indicated on your pledge card. Additional designations ***must*** be completed on a second pledge card." (Emphasis Added)

As a result of accepting paper pledge forms with more than five designations, the PCFO is running a greater risk of receiving pledge forms where the designations are difficult to determine due to donors squeezing more than five designations on the same form.

Recommendation 15

We recommend that the OCFC and LFCC direct the PCFO to train its keyworkers so that pledge forms with more than five designations are returned to the donor and that an additional pledge form is completed. If not, the PCFO should only recognize those designations entered in the appointed areas for designations on the pledge form.

PCFO/LFCC Response:

The PCFO and LFCC agree with this recommendation. The LFCC states that it has provided guidance to the PCFO and campaign volunteers with regards to limiting the number of charities per pledge form.

OIG Comments:

We appreciate that the PCFO and LFCC agree. However, the guidance referred to by the LFCC was incomplete. It should be clear in its guidance that only a maximum of five charity codes may be included on paper pledge forms. If donors using paper pledge forms wish to donate to more than five charities, additional pledge forms must be used. Lastly, the LFCC did not address that the PCFO should only recognize those designations entered in the appointed areas for designations on the pledge form.

2. One-Time Disbursements Not Approved by the LFCC — Procedural

We were unable to identify evidence of the LFCC's determination and authorized amount for one-time disbursements for the 2012 campaign.

One-time disbursements were improperly determined and authorized by the LFCC chairperson.

5 CFR 950.901(i)(3) states that the "LFCC must determine and authorize the amount" of one-time disbursements that are made.

Additionally, 5 CFR 950.101 defines the LFCC as "the group of Federal officials designated by the Director to conduct the CFC …."

We reviewed the LFCC meeting minutes for the 2012 campaign, especially those minutes preceding the payment of one-time disbursements by the PCFO, to identify where the LFCC determined and authorized the amount for one-time disbursements. Our review of the minutes did not identify any mention of one-time disbursements.

The PCFO provided a copy of an email from the former CFC Director (PCFO employee) stating that the LFCC had approved making the disbursements and the threshold for the 2012 campaign. However, the email did not include the actual approval by the LFCC. Discussion with the LFCC indicated that it was aware of the one-time disbursements and that approval may have been made informally by the LFCC chairperson.

As the LFCC is defined as a "group of Federal officials," the chairperson cannot make approvals that are required to be made by the group. Therefore, the one-time disbursements made for the 2012 campaign were not properly approved as is required by the regulations.

Recommendation 16

We recommend that the OCFC ensures that the LFCC has instituted procedures to determine if one-time disbursements are to be made and approve the threshold level for one-time disbursements on a yearly basis.

LFCC Response:

The LFCC agrees with this recommendation and states that it has set the approval of the making and setting the threshold level for one-time disbursements as a regular LFCC meeting agenda item on an annual basis.

Recommendation 17

We recommend that the OCFC ensures that the LFCC has instituted procedures to ensure that all decisions and/or approvals required of it are recorded in its meeting minutes.

LFCC Response:

The LFCC agrees with this recommendation and states that, along with decisions related to one-time disbursements, it has also set regular LFCC meeting agenda items for other annually occurring approvals that it must make according to the regulations.

3. Donor Information Improperly Released **Procedural**

The PCFO did not properly release information for two donors.

5 CFR 950.601(c) states that it is the PCFO's responsibility to forward donor information to the charitable organizations if the donor indicates that they wish to release the information.

Pledge forms and other electronic pledging options available to the donors give the option to release any or all of the following: home address, email address, and amount of pledge.

Additionally, the pledge information provided to donors of the 2012 campaign states that "Any information you enter below will be released, along with your name, to the charity(ies) to which you made a pledge."

We identified five charities to which the pledges for two donors were not properly released. Specifically, these donors chose to release their address and amount. In one case only the amount was released and the donor's name was not. In the other case, the donor provided their home address. However, no information was released.

As a result of not releasing the donor's information as requested, the PCFO did not honor the employee's request.

Recommendation 18

We recommend that the OCFC and LFCC direct the PCFO to institute procedures to ensure that personal information that donors wish to release to charities is transmitted to the charities properly.

PCFO Response:

The PCFO agrees with the recommendation. However, it disagrees that it erred in not releasing the information in both cases questioned.

For one pledge form, the PCFO states that it had "a previously recorded request from the employee … asking that their account be marked 'anonymous' … overriding any request received via individual pledge." However, in hindsight the PCFO and LFCC agree that the basis for releasing donor information should be based only upon the pledge form and will no longer use a previously recorded request as an override.

Additionally, in relation to the other pledge form questioned, the PCFO feels that it was correct in not releasing the donor's information. The pledge was made electronically (via EEX), and the PCFO acknowledges that the electronic system will only allow a donor to enter in their personal information (home address or email) if they wish to release it. However, the information forwarded to the PCFO indicated a "NO" in the field utilized by it for purposes of releasing the information and, as a result, it did not release the information. The PCFO feels that making a change to its system to recognize completed fields, in lieu of the release of information field, would be significant and costly. It asks that EEX be required to ensure that the information provided to campaigns be verified as accurate prior to release.

OIG Comments:

We accept the PCFO's response in regards to the donor whose information was not released due to a previous request and are pleased that it will discontinue the practice going forward.

However, we do not agree with its stance in regards to the donor information not released due to conflicting information received from EEX. It is still the final responsibility of the

PCFO to ensure that the information for donor's indicating their wish to release information is released in the end. We would not expect the PCFO to make significant and costly changes to its systems, but we are disappointed that it did not provide additional manual procedures (to either review the EEX information for correctness or its information once EEX information is imported) to reasonably attempt to fulfill its responsibility, rather than pass its responsibility on to others.

4. Fundraising Events — Procedural

Our review of special events identified 10 events that were not in compliance with the CFC regulations and OPM guidance.

Specifically, we reviewed 10 special event pledge forms to determine the following:

- if the events were cleared by the agencies ethics officials;
- if the donors were given the option of designating to specific organizations of their choice;
- if funds unaccompanied by a pledge form were accounted for as undesignated contributions and distributed according to the regulations; and
- if the fundraiser solicited funds for individual organizations or if the event was held on behalf of an individual organization.

Our review of the special events identified 10 CFC fundraisers that were not in compliance with the CFC regulations and supporting memoranda. Specifically, we identified the following issues:

Special Events not Reviewed by Agency Officials

We were unable to determine if any of the special events reviewed were approved by agency ethics officials as required by OPM.

According to the LFCC, and/or agencies, all of the special events were approved. However, no supporting documentation was available because the approvals appear to have been verbal.

Additionally, we determined that specific approval of five events (all from the same agency) may not have been obtained because the events were not considered "unusual or different from prior year fundraisers."

The LFCC stated that during its annual training for LEs and keyworkers it specifically addresses special fundraising events and informs them that they must seek both general counsel and ethics office approvals from their home agency prior to each event. However, there was no requirement to provide the approvals to the LFCC or PCFO.

5 CFR 950.602(b) states, "Any Special CFC fundraising event and prize or gift ***should*** be approved in advance by the ethics officials." According to CFC Memorandum 2011-07 "The word **'should'** in this sentence is used as a form of **'shall'** which means **this is a requirement**." (Emphasis Added)

Additionally, the memorandum states that agency coordinators and/or keyworkers planning events within a federal agency ***must*** receive the approval of the agency ethics official prior to holding the event. LFCCs, PCFOs, and/or volunteers planning campaign-wide or multiple agency events must receive the approval of the agency ethics officials for all agencies involved.

As a result of not requiring fundraising event organizers to maintain and provide proof of the event's approval by the agency's ethics officials for every fundraising event, we were unable to determine if any of the special events reviewed were approved by the agencies' ethics officials.

Recommendation 19

We recommend that the OCFC and LFCC direct the PCFO to institute policies and procedures that require the agency coordinators and/or keyworkers planning special events to receive the approval of the agency ethics official in writing prior to holding each event. Additionally, the written approval should be maintained with the keyworker envelopes relating to the special event.

PCFO/LFCC Response:

The PCFO and LFCC disagree with this recommendation and state that it is their opinion that its responsibility was limited to ensuring that agency personnel involved in the campaign were aware of the requirements surrounding fundraising events and not that it was required to collect all approvals as required by the finding.

OIG Comments:

We do not agree with the PCFO and LFCC's opinion related to this recommendation and finding. CFC Memorandum 2011-07 (dated November 10, 2011, prior to the 2012 campaign) states that those planning special fundraising events within federal agencies must receive the approval of agency ethics officials prior to holding the event. It then goes on to state that the LFCC, PCFO, and/or LEs must receive the approvals of the ethics officials for all agencies involved. As such, it is our opinion that the language of the Memorandum makes it mandatory that the PCFO and LFCC not only provide guidance regarding fundraising events, but also collect and maintain the documentation to ensure that each fundraising event meets the requirements of the regulations and other CFC guidance.

Special Events with Designations to Specific Charities

We identified two special events where the funds collected were designated to individual organizations.

5 CFR 950.602(c) states, "In all approved special fundraising events the donor must have the option of designating to a specific participating organization or federation or be advised that the donation will be counted as an undesignated contribution and distributed according to these regulations."

5 CFR 950.105(c)(2)(ii) states that the PCFO is responsible to "conduct campaign operations, such as training, kick-off and other events ...."

As a result of collecting funds for specific charities, the agencies holding the events did not follow the requirements of 5 CFR 950.602(c) and the PCFO did not properly distribute funds in accordance with 5 CFR 950.501(a).

Recommendation 20

We recommend that the OCFC direct the LFCC to ensure that agency coordinators, LEs, and keyworkers are trained to understand the requirements of 5 CFR 950.602(c).

PCFO/LFCC Response:

The PCFO and LFCC agree with this recommendation and state that the campaign's annual training for campaign volunteers has included the requirements related to agency ethics official's approval for fundraising events for many years. Additionally, they have instituted written procedures that require evidence be maintained of the written approval of ethics officials, the collection of funds, and that pledge forms are available at the events.

Recommendation 21

We recommend that the OCFC require the LFCC to institute procedures to ensure that donations at fundraising events without a valid pledge form by the donor are not directed to any specific charity, but counted as undesignated funds.

PCFO/LFCC Response:

The PCFO and LFCC did not address this recommendation in their response.

OIG Comments:

The OCFC should ensure that the LFCC and PCFO have procedures to ensure that fundraising events are not set up to have all funds collected benefit any one or two charities as was discovered in our audit. The events should be set up to solicit funds for the CFC generally and allow the donors the opportunity (through the availability of paper pledge forms) to designate to a charity if they wish. Any monies that are received without a pledge form should be counted as undesignated funds and not later be tallied and added to a generic pledge form for the event going to a specific charity.

D. ELIGIBILITY

1. Attendance at LFCC Meetings — Procedural

The LFCC did not achieve its quorum requirements for 4 of its 11 meetings, and 5 of its 12 members did not attend at least 50 percent of the meetings held during the 2012 campaign. Additionally, the LFCC did not hold meetings during the time frame of January through April 2012, an extremely important time frame for planning and decision making for the 2012 campaign. Finally, the LFCC's by-laws permit "authorized representatives" to attend in place of absent LFCC members.

The LFCC did not achieve quorum at over 1/3 of its meetings and nearly half of its membership didn't attend 50 percent of the meetings.

According to 5 CFR 950.101, the LFCC is the group of federal officials designated by OPM to conduct the CFC in a particular community.

Additionally, 5 CFR 950.104(a) states that "All members of the LFCC should develop an understanding of campaign regulations and procedures." 5 CFR 950.104 goes on to state that 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 LEs to assist in the campaign; ensuring that employees are not coerced in any way in participating in the campaign; and acting upon any problems relating to a voluntary agency's noncompliance with the policies and procedures of the CFC.

Lastly, the LFCC's by-laws state that its meetings "must have a quorum consisting of a majority of its voting members or their authorized representatives."

Our review of the LFCC meeting minutes and list of LFCC member terms of service determined that the LFCC did not meet its quorum requirements for 4 of its 11 meetings held between May 2012 and March 2014. Additionally, during this same time frame, 5 of its 12 members (excluding those added in March 2014) did not attend 50 percent, or more, of the meetings.

Discussions with the LFCC, and review of its by-laws, determined that it has a required membership which includes individuals representing the local Federal Executive Board and chairs of committees' set up by the LFCC to assist in coordinating the campaign. Additionally, the LFCC seeks membership from all large agencies in its local area. While the LFCC stated that "In many instances, member absence from a meeting was excused, and we did have a quorum … whenever we needed a decision", it should be noted that the LFCC meeting minutes did not record any members as being excused from any meetings, and the LFCC did state that its July 2013 meeting was unofficial due to lack of a quorum.

Additionally, we noted that the LFCC did not hold meetings during the period of January through April 2012. This time frame is when many important campaign decisions and approvals (such as selection of or renewal of the PCFO, approval of one-time disbursements, and approval of campaign expense reimbursement) occur and, therefore, is of concern.

The LFCC stated that it had a significant turnover in its membership (including its chairperson) from calendar year 2011 to 2012 and spent this time transitioning the chair and recruiting new members. No meetings were held during this time as the LFCC had limited personnel and "The only significant decision that needed to be made during that time as an LFCC was the approval to exercise the option year" of the PCFO (that decision was made via email vote). We understand that turnover and participation in the LFCC can be problematic. However, this did not excuse the existing members from meeting and making the necessary decisions for the campaign.

Lastly, although we appreciate the fact that the LFCC has documented its governance of the CFC through its by-laws, the inclusion of "authorized representatives" sitting in for absent LFCC members is a regulation violation as well. The CFC regulations state that LFCC members "should develop an understanding of campaign regulations and procedures."

Consequently, "authorized representatives," who are not required to develop this level of understanding, will not have a full knowledge of LFCC and CFC activities if an important approval or decision has to be made.

As a result of not meeting its quorum requirements and having many members not attending meetings regularly, the LFCC runs the risk of making invalid decisions or approvals. Additionally, by not holding meetings from January through April 2012, the LFCC put the PCFO in the position of either delaying campaign activities until it met or moving forward with activities without proper approvals by the LFCC. Finally, by permitting "authorized representatives" of LFCC members to attend in their place, the LFCC runs the risk of decisions or approvals being made without the full knowledge base of the LFCC present.

Recommendation 22

We recommend that the OCFC ensure that the LFCC has modified its by-laws to include procedures to excuse members who cannot attend (with prior approval) and to record those excused in the LFCC meeting minutes to reduce the numbers required for a quorum.

LFCC Response:

The LFCC agrees with this recommendation and stated that it's "by-laws have been modified to provide a procedure to excuse LFCC members with prior approval, and recording that approval in the meeting minutes."

Recommendation 23

We recommend that the OCFC ensure that the LFCC has made changes to ensure that it meets during periods when approvals required by the federal regulations are to be made.

LFCC Response:

The LFCC stated that monthly meeting dates and times have been established, along with monthly meeting topics/approval requirements to ensure consistency from year to year regarding regularly occurring topics/approvals.

Recommendation 24

We recommend that the OCFC direct the LFCC to modify its by-laws to remove the option for "authorized representatives" to attend in place of absent LFCC members.

LFCC Response:

The LFCC agrees with this recommendation and stated it has revised its by-laws to remove the option for "authorized representatives" to sit-in for members at meetings.

E. PCFO AS A FEDERATION

Our review of the PCFO's activities as a federation showed that it complied with the applicable provisions of 5 CFR 950.

F. FRAUD AND ABUSE

Our review of the PCFO's policies and procedures for fraud and abuse indicated that they were sufficient to detect and deter potential fraud and abuse activities.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

[redacted], Senior Team Leader

[redacted], Auditor

[redacted], Group Chief, [redacted]

Chesapeake Bay Area Combined Federal Campaign

Local Federal Coordinating Committee
31 Hopkins Plaza, Room 810B
Baltimore, MD 21201
www.cbacfc.org

2 October 2014

U.S. Office of Personnel Management
Office of the Inspector General
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1900 E Street, NW, Room 6400
Washington, DC 20415-1100

Re: Report No. 3A-CF-00-14-050

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The following responses represent a collaborative effort on behalf of the PCFO, United Way of Central Maryland (UWCM) and the LFCC leadership regarding your recent audit of the 2011 and 2012 Chesapeake Bay Area Combined Federal Campaign (CBACFC).

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BUDGET AND CAMPAIGN EXPENSES

- **Administrative Expenses** **$794**

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Unallowable Expense – Bus Tour - $220

The PCFO and LFCC agree with this finding. **Deleted by OIG – Not Relevant to Final Report.** The PCFO will reimburse the CFC for this charge, and the LFCC will ensure expenses of these types are not approved for future campaigns.

Unallowable Expense – Meals - $136

The PCFO and LFCC agree with this finding. **Deleted by OIG – Not Relevant to Final Report.** While we agree with the finding, it is regretful that the PCFO would be required to pay for these expenses after being approved by the LFCC. The LFCC Chair will reimburse the CFC for these charges totaling $136. The LFCC has not, since March 28, 2012 (the release date of the Memorandum regarding meal and/or food expenditures) and will not approve any cost of this type for future campaign budgets.

Incorrect Allocations - $438

Occupancy: The PCFO disagrees with the finding that states that the PCFO reimburse the CFC $438 for overcharging occupancy expense. Occupancy is an allocated expense based on a reasonable allocation methodology approved by the LFCC. The calculated percentage was applied consistently to the actual monthly occupancy invoices of the PCFO throughout the campaign.

The PCFO disagrees with the finding that states that the CFC was charged for occupancy based on budget and not actual expense. Occupancy is an allocated expense. The allocation methodology to determine an appropriate share of this expense is outlined during the budget process and approved by the LFCC - a mathematical computation that includes a combination of FTEs, square footage, and space for LEs. Once the amount of the expense is calculated, the expense is converted into a percentage. The percentage is applied against the monthly invoice. Because the monthly invoice to the PCFO has no variable cost components within it, the expense is not going to fluctuate during the campaign; the budget and the actual expense would be the same.

The PCFO is following CFC regulation 5 CFR 950.106 permitting the PCFO to recover the actual costs for administering the campaign and CFC Memo 2013-04 stating that the actual costs need to be reasonable, allowable and necessary. Reasonable is measured by what is appropriate or fair. In determining what is appropriate and fair, the PCFO used the best information available to provide the percentage of occupancy expense being allocated to the campaign using square footage, PCFO staff and the LE space, providing the calculation used for reasonableness, and the statement that the total expense reflected in the allocation included the LE space. During the budget proposal process, the LFCC did a detailed review of our allocation and approved our methodology as being reasonable and fair. That allocation which represents the actual use of the allocated space, represented as a percentage of the entire square footage of the space, was appropriately applied to the monthly invoice for occupancy.

Payroll Transactions: The PCFO partially agrees with this finding. Once the campaign budget is approved, payroll allocation updates are made to the automated Payroll system. Any adjustments or changes in staffing during the year will be made by the Accounting staff to ensure the records are accurate and to correct any errors. The PCFO will review the staff allocation quarterly, ensuring the allocations in place accurately reflect any staff changes. The LFCC will ensure this review has been performed in quarterly budget/contract review meetings. In addition, the LFCC has directed the PCFO to maintain historical allocation calculations and changes in order to comply with records retention requirements as indicated in the CFC regulations. The PCFO believes that this was a unique and unusual circumstance, as the result of a more manually-based process being used, and the instance cited occurred outside of our normal procedures and thus the partial agreement.

Improper Matching of CFC Receipts and Expenses **Procedural**

Tracking campaign expenses: The PCFO partially agrees with this finding. To the extent possible and going forward, the PCFO will work with the LFCC to adopt a stronger allocation of expense among campaigns that are concurrently running. We are reviewing system options and determining the most effective and efficient way to ensure the greatest accuracy with regard to this distribution. The LFCC will ensure a calculation/application methodology is identified and implemented for the 2014 campaign period and all future campaigns.

The PCFO is going to have to analyze the capability of our system to address the finding to the best of our ability. The partial agreement stems from the PCFO's belief that we can address some of the allocations between campaigns quickly but may experience limitations for others.

LFCC Approval of Campaign Expense Reimbursement **Procedural**

The PCFO and LFCC agree with this finding, and agree that the request and approval of supplemental reimbursement was not documented. The LFCC will ensure that all future requests for reimbursement by the PCFO are fully documented in writing, and that reimbursement be approved by the full LFCC at a scheduled and convened LFCC meeting.

CAMPAIGN RECEIPTS AND DISBURSEMENTS

Pledge Form Errors **Procedural**

The PCFO and LFCC partially agree with these findings. There are several specific pledge cards that we believe were handled correctly. Of the **Deleted by OIG – Not Relevant to Final Report.** errors identified, there are **Deleted by OIG – Not Relevant to Final Report.** forms that our campaign felt were handled appropriately, and as such we disagree with the specific findings on those pledge cards. **Deleted by OIG – Not Relevant to Final Report.** We agree with the findings for the remaining **Deleted by OIG – Not Relevant to Final Report.** pledge errors.

Imported from "Detailed Response with Regard to Specific Pledge Card Errors" provided by the LFCC on October 2, 2014.

Error #1 – Samples #32, #52, #93, and #98 - PCFO verified that the correct 5 digit code was entered for the pledge initially, but was revised to undesignated funds after the fact as a result of the IRS revoking the 501c3 status for that organization. This agency was revoked during the payout cycle year, therefore only the unpaid designation balance was moved to undesignated.

The PCFO currently, and has for many years, provided the Pledge Processing Vendor with a detailed, written procedure with regard to data entry. We have reviewed this guidance, which includes the procedures with regard to the correction process for pledge card errors (missing information, mathematical inaccuracies, improper charity codes) as well as the requirement to change release authorization fields to 'yes' where required, and have re-emphasized the importance of proper data entry to the current vendor. The PCFO regularly monitors the accuracy of data entry, and provides guidance with regard to any recurring issues (specific to an individual employee or process) as well as adhering to the requirements of 5 CFR 950.402(d) and will continue to do so on a recurring basis.

The data entry system used to manually enter paper pledge cards is preset with a 'no' indicator for release of name, address and pledge amount to require the data entry clerk to change the indicator to 'yes' where indicated on the pledge form. We feel this process ensures the strongest ability to avoid unauthorized release of donor information. We agree that three of the pledge forms reviewed authorized the release of the employee's email address, and that action was not taken as a result of the 'no' indicator not being changed to 'yes' in the database.

The LFCC provided guidance at the start of this year's campaign (2014) to the PCFO, as well as to the Loaned Executives, and as part of Coordinator and Keyworker training with regard to pledge card accuracy, pledge card changes, limiting the number of charities per pledge card, as well as ensuring designated amounts match the overall total on each pledge card. In the case that any pledge card requires correction, it will be returned to the donor for updating and require initialing by the donor, and not that of the keyworker or coordinator.

The LFCC has provided guidance to the PCFO, Loaned Executives and Federal Agency coordinators to ensure the payroll copies of pledge forms are provided to the appropriate payroll offices. There were two pledge forms identified as payroll copies in the audit. The PCFO disagrees that these forms are the actual payroll copies, and are actually photocopies of the payroll forms.

Imported from "Detailed Response with Regard to Specific Pledge Card Errors" provided by the LFCC on October 2, 2014.

Error # 7 – Samples # 156 and 157 - The pledge forms on file are not the actual payroll copy, but are photocopies of the payroll copy. The PCFO pulled the envelope which contained these pledge cards, and identified them as photocopies of the pledge card, with blue post-it flags from the audit affixed to each copy.

The LFCC has directed the PCFO, Loaned Executives and Federal Agency coordinators to match pledge forms names with those on checks in support of those forms, as well as to identify on the check and pledge form when a donor provides a check in support of a Special Event. We believe the pledge form identified with mismatched check information was payment in support of the special event that the pledge card represented, and included a combination of cash and donor check that reflected the overall total collected for the event.

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One-Time Disbursements not Approved by the LFCC **Procedural**

The LFCC agrees with this finding. The LFCC had previously approved a threshold, but did not review and determine a new threshold annually unless a change was deemed necessary. The LFCC has created a template of standard meeting agenda items for each month of the year to ensure required approvals, to include setting one-time disbursement thresholds, approval of PCFO reimbursement, and other annually recurring approvals and decisions are made consistently from campaign year to campaign year. This template has been provided to the OCFC for review.

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Donor Information Released Improperly **Procedural**

The PCFO partially disagrees with this finding.

The first pledge referenced identifies a pledge with five designations, and the flag received in a report from the electronic pledging system, Employee Express (EEX) indicates the employee authorized the release of their name, address and amount. This information was not released as the result of a previously recorded request from the employee directly, asking that their account be marked 'anonymous', overriding any request received via individual pledge. Deleted by OIG – Not Relevant to Final Report. As such, the pledge amount was released, but no personal information was. The PCFO and LFCC agree that the basis of this release should be based solely on the current pledge card in hand, and will no longer use a previously recorded request.

The second pledge referenced indicated that a donor's address was provided, but no information was released. The flag for this donor, which was also provided in a report from EEX indicated that no information was to be released, therefore the PCFO followed the protocol with regard to non-release of the information. While the EEX system will not allow an employee to enter a home mailing or email address unless the donor authorizes the release of their information during the EEX pledge process, the PCFO database is used to determine whether to release information for a specific pledge based on the indicator flag, and does not have the ability to base that decision on entry of data into the address or email address field. While we agree this information should have been released, the ability to modify the PCFO's system to recognize completed fields in lieu of the indicator to release the information would be significant and costly. We recommend that the government consortium that oversees the Employee Express system be required to ensure that the information provided to campaigns be verified as accurate prior to release.

Fundraising Events **Procedural**

The PCFO and LFCC partially agree with this finding. The campaign's annual training for coordinators, keyworkers and other CFC volunteers has included the requirement for Ethics Office approval for all events for many years, and the campaign will continue that practice for future campaigns. The LFCC provided this guidance to all Agency Coordinators, and felt that the burden of the requirement (for ethics approval documentation) was limited to ensuring the Federal Agency personnel involved in the campaign were aware of this requirement, along with the requirement that all funds collected at these events were made to undesignated funds, and that all attendees had the opportunity to designate to the charity of their choice, ensuring that pledge cards were available at all events. The LFCC did not feel that the burden of proof rested with the campaign (requiring the CFC office to collect said approvals, as well as providing some type of evidence that pledge cards were available at each event.) The LFCC felt that burden of proof rested with the Federal Agency, and therefore disagrees that the campaign was required to collect all the documents required as indicated in this finding.

As a direct result of the audit, the LFCC developed new written procedures with regard to collection of Special Event funds that includes the requirement to include, in addition to the collection of the funds, written ethics approval, and the certification of the Agency or Event Coordinator (using a newly developed 'Special Event Checklist') that pledge cards were available at these events. Donor pledge cards received at Special Events were processed as an individual pledge, and would not be included specifically as a Special Event pledge. This written procedure was provided to the OCFC and received approval in September 2014.

ELIGIBILITY

LFCC Meeting Attendance **Procedural**

The LFCC agrees with these findings. Effective 1 July 2014, (the annual date for voting in the new LFCC Chair and Vice Chair), all LFCC members have been made aware of their specific duties to regularly attend LFCC meetings. In addition, the by-laws have been modified to provide a procedure to excuse LFCC members with prior approval, and recording that approval in the meeting minutes, In addition, the by-laws have been revised to remove the option for 'authorized representatives'. Monthly meeting dates/times have been established, along with monthly meeting topics/approval requirements to ensure consistency from year to year regarding regularly occurring topics/approvals.

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Respectfully,

[redacted]

[redacted]

Chair

Local Federal Coordinating Committee

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