



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

Final Audit Report

**AUDIT OF THE 2011 AND 2012
NORTHERN LIGHTS
COMBINED FEDERAL CAMPAIGNS**

**Report Number 3A-CF-00-14-048
March 23, 2015**

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EXECUTIVE SUMMARY

Audit of the 2011 and 2012 Northern Lights Combined Federal Campaigns

Report No. 3A-CF-00-14-048

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Why Did We Conduct the Audit?

The main objective of the audit was to determine if the Northern Lights CFC was administered in compliance with 5 CFR 950, including the responsibilities of both the Principle Combined Fund Organization (PCFO) and the Local Federal Coordinating Committee (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 Independent Public Accountant's Agreed-Upon Procedures audit of the 2011 campaign. Our audit was conducted from June 23 through 27, 2014, at the PCFO's offices in St. Paul, Minnesota.



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What Did We Find?

As a result of the numerous findings identified (18) in the report, the nature of the issues discovered, and the LFCC and PCFO's lack of adherence to and/or lack of understanding of the CFC regulations, we are recommending that the U.S. Office of Personnel Management's Office of the Combined Federal Campaign (OCFC) seek to merge the Northern Lights CFC with another campaign, or ensure that the campaign is administered by a new PCFO that is equipped to handle the responsibilities of the CFC. Additionally, as a result of the LFCC's lack of involvement in its role of conducting and overseeing the campaign, we recommend that the OCFC seek to replace the LFCC.

Of the 18 findings identified, the following best illustrate the enormity of the problems encountered:

- The PCFO did not disburse all 2012 campaign receipts; it charged the 2012 campaign for expenses that were either unallowable or related to other campaigns; it did not make the initial disbursement to all charities by the OCFC deadline; it did not segregate CFC financial records from its corporate financial records; and it did not properly allocate indirect general overhead expenses to the CFC.
- The LFCC did not properly authorize the one-time disbursements and the PCFO's reimbursement for campaign expenses; it did not provide evidence of meetings between January 2012 and July 2012 (a time frame when significant decisions are made by the LFCC); it did not provide evidence of its review of the PCFO's performance prior to renewal of a multi-year agreement; and its members did not attend meetings regularly (if at all).

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
CSM	Community Shares of Minnesota
FEB	Federal Executive Board
IPA	Independent Public Accountant
LOCA	Letter of Credit Account
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

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
ABBREVIATIONS	ii
I. INTRODUCTION AND BACKGROUND	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY	3
III. AUDIT FINDINGS AND RECOMMENDATIONS	9
A. AUDIT GUIDE REVIEW	9
1. Agreed-Upon Procedures Not in Compliance with the Audit Guide	9
B. BUDGET AND CAMPAIGN EXPENSES	11
1. Administrative Expenses	11
2. Improper Matching of Receipts and Expenses	18
3. LFCC Approval of Campaign Expense Reimbursement	19
4. Obsolete PCFO Application Statement	22
5. Performance Review of the PCFO by the LFCC	23
6. PCFO Solicitation Not Documented	25
7. Sponsorship Agreement Approval	26
8. Separation of CFC Financial Records	27
C. CAMPAIGN RECEIPTS AND DISBURSEMENTS	28
1. Undisbursed CFC Receipts	28
2. Untimely Initial Disbursement	30
3. Improper Authorization of One-Time Disbursements	32
4. One-Time Disbursement Threshold Applied Incorrectly	33
5. Outstanding Check Procedures	34
6. Pledge Form Errors	35
D. ELIGIBILITY	37
1. LFCC Members	37
E. PCFO AS A FEDERATION	41
1. Federation Dues Incompletely Described	41
F. FRAUD AND ABUSE	42
G. DISPOSITION OF THE CAMPAIGN	42
IV. MAJOR CONTRIBUTORS TO THIS REPORT	46

APPENDIX	47
REPORT FRAUD, WASTE, AND MISMANAGEMENT	59

I. INTRODUCTION AND BACKGROUND

Introduction

This final report details the findings and conclusions resulting from our audit of the 2011 and 2012 Northern Lights Combined Federal Campaigns (CFC). 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. OPM's Office of the Combined Federal Campaign (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 a Local Federal Coordinating Committee (LFCC) and administered by a Principle 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 (LE), 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 Independent 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 the Northern Lights CFC.

The initial results of our audit were discussed with the PCFO during our exit conference on June 27, 2014. A draft report was provided to both the PCFO and the LFCC for review and comment on October 22, 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 Agreed-Upon Procedures (AUPs) 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 Community Shares of Minnesota (CSM) properly distributed funds to its federation members, and if expenses charged by CSM (to its federation members) were documented properly.

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. CSM, located in St. Paul, Minnesota, 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 Northern Lights 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	\$1,162,908	\$1,097,679	\$131,775
2012	\$1,084,213	\$1,024,866	\$121,217

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 and the LFCC's approval of the budget, and matched a sample of actual expenses to supporting documentation. Our sample included 144 transactions totaling \$36,333 (from a universe of 836 transactions totaling \$121,217) that were charged to the 2012 CFC. Specifically, our sample was judgmentally selected using the following methodologies:
 - ▶ We selected all transactions greater than \$200 (32 transactions totaling \$19,382) from direct/non-allocated expense accounts;
 - ▶ We selected the first and last transactions (19 transactions totaling \$6,857) from multiple categories within the payroll-related expense accounts (Salary Expense, Payroll Taxes, and Unemployment Taxes);
 - ▶ We selected all transactions (42 transactions totaling \$5,650) from the Audit Expense and Bank and Credit Card Fee expense accounts;
 - ▶ We selected all first and last month transactions (35 transactions totaling \$3,056) from the Benefits Insurance, Benefits Retirement, Office Rent/Utilities, Admin Insurance, Telecom, and Contracted Services expense accounts;
 - ▶ We selected five transactions from the Postage/Delivery and Consultant Services expense accounts, totaling \$754, based on nomenclature review; and
 - ▶ We selected all transactions from the month with the highest total dollars in expenses (11 transactions totaling \$634) from the Computer and Web Hosting, Copy and Reproduction, Depreciation Expense – Equipment, and Depreciation Expense – Software expense accounts.

- 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 75 pledge forms, with pledges totaling \$253,693 (out of a universe of 5,292 pledge forms, with pledges totaling \$1,084,213), from the PCFO's 2012 campaign pledge form detail schedule and compared the pledge information from the schedule to the actual pledge forms. Specifically, we judgmentally selected the sample utilizing the following methodology:
 - ▶ We selected the 25 high dollar electronic pledge forms, totaling \$168,051; and
 - ▶ We selected the 50 high dollar paper pledge forms, totaling \$85,642.
- Distribution checks for a sample of 10 federations and organizations, totaling \$298,858 in disbursed funds (out of a universe of 175 federations and organizations, totaling \$879,770), to verify that the appropriate amount was distributed in a timely manner. We judgmentally selected the nine agencies or federations with the highest total disbursement amount. In addition, we also judgmentally selected the PCFO (CSM).
- 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 9 pledge notification and donor letters (from a universe of 317) 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. Utilizing the pledge forms previously selected for review, we judgmentally selected all agency codes where donors designated \$1,500 or more, in aggregate, and elected to release 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 113 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 organizations and the top four local federations with the highest gross pledges. In addition, we also judgmentally selected the PCFO (CSM).
- 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 CSM was in compliance with the CFC regulations as a federation for the 2012 campaign, we reviewed the following:

- The CFC Receipts Schedule and the Federation Distribution Schedule, to determine if the percentage of receipts assigned to each organization agreed to the percentage of pledges for that organization.
- Distribution checks for a sample of 6 federation member agencies totaling \$2,712 (out of a universe of 12 totaling \$5,543 in distributions), to verify that the appropriate amount was distributed in a timely manner. We judgmentally selected the top six federation members with the highest amounts disbursed, excluding the PCFO as a Federation.

- CSM'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

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

The IPA utilized by the LFCC to complete the AUP audit of the 2011 campaign did not complete its review in accordance with the requirements of the Audit Guide.

The Audit Guide contains specific procedures to be followed during the examination by the IPA with the primary objective of determining LFCC and PCFO compliance with 5 CFR 950 and OPM guidance.

We reviewed the IPA's work papers and report in detail to determine if the IPA followed the AUPs as stated in the Audit Guide and to determine if the IPA failed to identify and report any findings. Our review identified two areas where the IPA did not comply with the requirements of the Audit Guide. Specifically, we identified the following issues:

The IPA did not identify and report findings related to three Audit Guide steps.

- **LFCC Processes, Step 1(d)** requires the IPA to review the application to verify that it did not include a statement that the PCFO is subject to the provisions of 5 CFR 950.403, as this has been removed from the regulations. Our review of the application, which was the same application the IPA reviewed, found the application did include this statement. However, the IPA did not identify this error nor report this as a finding in its report.
- **Receipt and Disbursement of Funds, Step 2** requires the IPA to report as a finding all instances where the PCFO does not break out bank fees, credit card fees, credit card receipts, cash/check receipts, payroll receipts, and interest earned and report them in the appropriate columns on the Schedule of Campaign Receipts and Disbursements. The PCFO did not list its banking and credit card fees on the Schedule of Receipts and Disbursements and did not separate credit card receipts from cash receipts. Our review found that the IPA did not report this as a finding.

The IPA stated that the information provided by the PCFO did not include those items. Therefore, it could not determine that there was any missing information. However, based on our discussions with the PCFO, banking fees, credit card fees, and credit card receipts did exist in the 2011 campaign. Additionally, as part of its due diligence the IPA

should have inquired regarding those items to determine if they should have been included.

- **Receipt and Disbursement of Funds, Step 3(b)** requires the IPA to determine if disbursements began by April 1st and continued quarterly thereafter. The PCFO made disbursements to agencies receiving one-time disbursements on March 29th, but agencies receiving quarterly disbursements did not get an initial distribution until April 27th. The IPA did not report this as a finding.

The IPA stated that the procedures performed indicated distributions began on March 29th, before the required April 1st date and that the step does not specify whether the disbursement should be one-time and/or quarterly so it did not report a finding. However, 5 CFR 950.901(i)(2) states that the PCFO will distribute all CFC receipts beginning April 1st, and quarterly thereafter. Therefore, the PCFO should have distributed all available funds with its first distribution by April 1st.

The IPA did not complete two steps required by the Audit Guide.

- **LFCC Processes, Step 1(e)** requires the IPA to review the LFCC meeting minutes to determine if the LFCC performed a review of the PCFO's 2010 performance prior to renewing the PCFO agreement for the 2011 campaign (if 2011 was a renewal of a multi-year agreement). Community Shares of Minnesota (CSM) was in a multi-year agreement to serve as PCFO for the 2010-2012 campaigns. The IPA listed this step as not applicable because it misinterpreted the statement "renewal of a multi-year agreement" to mean renewal of a new agreement altogether and not renewal of a year within the current agreement.
- **Receipt and Disbursement of Funds, Step 6** requires the IPA to determine if international general designations were distributed in accordance with the regulations. The IPA listed this step as not applicable because the PCFO informed it that there were no international general designations, and that it could not determine from the International Distribution schedule that these designations were made. However, the International Distribution Schedule maintained by the IPA in its work papers indicates these donations were made.

As a result of the IPA not identifying and reporting findings and not completing all of the AUP steps as required, the OCFC and LFCC were not made aware of findings and could not institute corrective actions to improve the efficiency of the campaign.

Recommendation 1

We recommend that the OCFC and the LFCC ensure that the IPA fully understands the CFC and applicable regulations so that it may complete the Audit Guide’s AUPs correctly and completely.

Recommendation 2

We recommend that the OCFC ensures that the LFCC and the PCFO meet with the IPA prior to and during the AUP engagement to discuss the Audit Guide steps, and encourage the IPA to ask questions of the OCFC if it is unsure of how to complete any of the required procedures.

PCFO and LFCC Response:

The PCFO and LFCC agree with the recommendations. The LFCC will ensure that the IPA understands the CFC and its regulations by meeting with it prior to the AUP audit to discuss the audit steps and review the regulations. The LFCC will also encourage the IPA to contact the OCFC during the audit if there are questions regarding completing steps in the Audit Guide.

B. BUDGET AND CAMPAIGN EXPENSES

1. Administrative Expenses

\$7,818

The PCFO incorrectly charged the 2012 campaign \$7,818 for expenses that were related to other campaigns or were unallowable to the CFC.

Expenses charged to the 2012 campaign included expenses related to other campaigns and expenses which were unrelated to the CFC.

5 CFR 950.106(b) states that “The PCFO may only recover campaign expenses from receipts collected for that campaign” In other words, the PCFO may only be reimbursed for its 2012 campaign expenses from the funds received for the 2012 campaign. Likewise, 2012 campaign funds should not be used to pay for expenses related to other campaigns.

We reviewed a sample of expenses charged to the 2012 campaign to determine if they were actual, necessary, and reasonable charges with appropriate supporting documentation; if the expenses were related to the CFC; and, if an allocated cost, that the methodologies used were reasonable and supported. Our review identified \$7,399 in expenses charged to the 2012 campaign that were related to either the 2011 or 2013 campaigns and \$419 in unallowable expenses.

Specifically, we identified the following:

\$7,399¹ in CFC-related expenses charged to the 2012 campaign erroneously. We identified the following items as charged in error:

- \$3,900 in audit fees related to the IPA audit of the 2011 campaign.

PCFO/LFCC Response:

The PCFO and LFCC do not agree that the audit fees were charged in error. They state that the PCFO budgeted \$3,900 for the 2012 audit and that the expense was included in the March 2014 expense report to close out the 2012 campaign by March 31st. They state that in February 2014, they were informed by the OCFC of the OIG audit and that the 2012 IPA audit would not be required. The OCFC informed the PCFO that it should estimate the costs that would be associated with the OIG audit, and the PCFO and LFCC decided to utilize the \$3,900 previously budgeted for this purpose.

OIG Comments:

The PCFO and LFCC do not understand the issue at question here. The finding is not related to costs associated with the OIG audit of the Northern Lights CFC, but with the PCFO charging and reimbursing itself for IPA audit expenses distinctly related to the 2011 campaign from 2012 campaign monies. Specifically, the PCFO's general ledger and supporting documentation show that \$3,900 was reimbursed to it from 2012 campaign monies related to four invoices dated between April and August 2013. These invoices clearly state on them that they were for "professional services rendered in connection with our agreed upon procedures engagement for the Northern Lights Combined Federal Campaign for the campaign ended March 31, 2013." The PCFO in its response stated that the expense was included in the March 2014 expense report to close out the 2012 campaign by March 31 (2014), which would be correct. However, that expense recorded was for the 2011 campaign and further illustrates the PCFO's lack of understanding of how CFC expenses should be matched with CFC receipts. In our opinion, the PCFO was simply charging expenses to the current campaign in operation and not determining to which campaign the expenses belong.

¹ The amounts questioned are allowable expenses to the CFC that were applied incorrectly and paid from the wrong campaign's receipts. Since the amount questioned is less than one percent of the total receipts of the 2012 campaign, we are treating this amount procedurally and will not require the PCFO to reopen the 2011 and 2012 campaigns to have the 2011 campaign reimburse the 2012 campaign and redistribute the funds.

We do acknowledge that there are costs incurred by the 2012 campaign related to the OIG audit. However, it should be noted that any costs incurred by the PCFO for the OIG audit must be reimbursed from 2012 campaign receipts. Because the 2012 campaign is closed and since the PCFO did not set aside or accrue funds to cover the cost of the IPA audit, there are no 2012 campaign funds remaining to reimburse the PCFO. If the PCFO wishes to be reimbursed for those costs it must make a special request to both the LFCC and the OCFC to obtain permission to do so since the only funds currently available are related to either the 2013 or 2014 campaigns.

- \$2,685 in travel-related fees for the 2013 CFC Conference.

PCFO/LFCC Response:

The PCFO and LFCC do not agree that the travel-related expenses were charged in error. They state that the expense related to the 2013 CFC Conference occurred during the 2012 campaign and was budgeted as part of that campaign and that, at the time of occurrence, there was no approved 2013 campaign budget.

Additionally, the PCFO and LFCC state that the conference expense should be considered in the calendar year incurred and since the agenda covered experiences during the 2012 campaign, non-campaign specific training, and discussion of the upcoming CFC changes. They state that, according to the CFC regulations, campaign expenses should be charged to the year of the campaign.

OIG Comments:

The PCFO and LFCC's response to this portion of the finding clearly demonstrates their lack of understanding of how campaign expenses are to be applied to specific campaigns.

Their contention that the expenses related to the conference should be charged to the 2012 campaign because they were budgeted as part of that campaign, that there was no budget for the 2013 campaign at the time the expense was incurred, and that the CFC regulations state that campaign expenses are charged to the year of the campaign all fall short.

The CFC conferences put on by the OCFC are meant to prepare for the upcoming CFC. Therefore, the related costs for the 2013 conference should be charged to the 2013 campaign, not the 2012 campaign.

The PCFO and LFCC are absolutely incorrect in their statement that the CFC regulations state that campaign expenses are to be charged to the year in which they are incurred. 5 CFR 950.106(b) clearly states that the “PCFO may only recover campaign expenses from receipts collected for that campaign year.” Therefore, a 2013 campaign expense may only be reimbursed from 2013 campaign receipts. The PCFO’s reasoning that since there was no approved budget at the time the expense was incurred, and thus the expense should be charged to the 2012 campaign, is incorrect. The PCFO should either absorb the cost of the expense or obtain a commercial loan to cover the cost until such time that the campaign receipts to which the expense relates are available for reimbursement.

- \$540 in banking fees related to the 2011 campaign. These fees were incurred before the 2012 campaign began to receive funds.
- \$158 in setup fees related to the 2013 campaign line of credit account.
- \$105 in equipment lease fees that were related to the 2011 (\$79) and 2013 (\$26) campaigns. The PCFO charged 24 months of lease expense to the 2012 campaign.
- \$11 in insurance expense overcharged to the CFC. The PCFO allocated three years of insurance to the CFC over a one-year period.

PCFO/LFCC Response:

The PCFO and LFCC agree that the banking fees, setup fees, equipment lease fees, and insurance expense were mistakenly charged to the 2012 campaign. The PCFO states that it has instituted a checklist that will be used annually to transition between campaigns.

OIG Comments:

We again reiterate the lack of understanding of the regulations related to allocating costs to the appropriate campaign demonstrated by both the PCFO and LFCC. These specific errors could have been avoided if the PCFO did not merely charge expenses to the campaign in operation at the time. If it would take the time and effort to determine first which campaign an expense was related to (which we hope this checklist will initiate), these errors could have been avoided.

\$419² in unallowable expenses charged to the 2012 campaign. Specifically, we found the following:

- \$256 in banking fees related to non-CFC accounts.

PCFO/LFCC Response:

The PCFO and LFCC disagree and state that the banking fees were related to the CFC. The amount was charged against CSM's corporate operations account from which it pays CFC expenses, and the fees represent the percentage share that is charged to the CFC for utilizing the account.

OIG Comments:

The method in which the PCFO pays the expenses related to the CFC shows its lack of understanding of how the program works. To cover expenses related to the CFC, the PCFO obtained a letter of credit account (LOCA), which is allowed according to the regulations. When PCFOs elect this option, the LOCA accounts should be utilized as CFC-specific checking accounts, and expenses should be paid directly from the accounts. In this case however, the PCFO chose to write checks from its corporate account to cover CFC expenses and only utilized the LOCA to reimburse its operating account. Consequently, because the PCFO obtained the LOCA, which itself incurred interest expense paid by the CFC, we contend that the additional cost charged by the PCFO because it chose to pay CFC expenses from its corporate operations account is an unallowable cost to the CFC.

- \$140 in CFC banking and credit card fees. These fees are not a reimbursable expense as the fees are paid automatically from the CFC's bank account as reductions to the account balance and should not also be included as an expense to the campaign.

PCFO/LFCC Response:

The PCFO and LFCC disagree and state that the banking fees and credit card fees were associated with credit card payments by individuals for events and were not donations. The payments went through the PCFO's operations account, not the CFC bank account, thus they are a reimbursable expense.

² As this amount is less than one percent of the receipts received for the 2012 campaign, we will not request that the PCFO reopen the 2012 campaign to redistribute the funds. However, we will recommend that this amount be repaid to the campaign currently disbursing funds by the PCFO.

OIG Comments:

The PCFO and LFCC are mistaken in this regard. The banking and credit card fees questioned here were deducted directly from donation monies collected from individuals who donated to the campaign using a credit card. Therefore, the expense was never actually incurred by the PCFO since it was already accounted for in the net credit card receipts received. Therefore, as a result of reporting these banking and credit card fees as a reimbursable expense, the CFC was double charged for these monies. First, when the fees were deducted from the CFC receipts and then when the PCFO was reimbursed for them.

- \$23 in cell phone setup fees related to expenses for employees that do not charge time to the CFC campaign.

PCFO/LFCC Response:

The PCFO and LFCC disagree and state that the invoice refers to providing information for staff members and synchronizing the cell phones to the PCFO's network. The PCFO also states that the amount is related to a contractor who provides assistance to the CFC in financial matters.

OIG Comments:

We do not concur with the PCFO and LFCC. The invoiced charges were related to two individuals that, according to our audit, did not provide any assistance to the CFC. While the PCFO states that the amount relates to one individual who performed work for the CFC, it provided no documentation or evidence to support its claims.

As a result of charging the 2012 campaign for expenses that were related to other campaigns, \$7,399 was not received by the charities participating in this campaign and the intentions of the federal employee donors were not met. Additionally, \$419 in unallowable expenses was charged to the 2012 campaign due to the PCFO misapplying corporate expenses to the CFC.

Recommendation 3

We recommend that the OCFC and LFCC direct the PCFO to reimburse the CFC \$419 for unallowable expenses charged to the 2012 campaign. The reimbursement should be made as undesignated funds to the current campaign.

PCFO/LFCC Response:

The PCFO and LFCC disagree with the amount questioned and state that it is minimal, requiring no further action.

OIG Comments:

We do not concur with the PCFO and LFCC. The questioned amount was paid to the PCFO in error and should be returned to the CFC. While the amount questioned is not significant, it could still benefit those charities participating in the current campaign. Consequently, we are not requiring the PCFO to reopen the 2012 campaign. Instead, the amount should be repaid to the CFC and distributed to the current campaign in operation as undesignated funds.

Recommendation 4

We recommend that the OCFC and the LFCC ensure that the PCFO understands and follows CFC regulations and OPM guidance when determining to which campaign an expense belongs.

PCFO/LFCC Response:

The PCFO and LFCC agree with this recommendation. The LFCC states that it will require the PCFO to provide procedures that ensure compliance and that it will provide appropriate oversight.

OIG Comments:

While we appreciate the LFCC's intent to provide oversight, we did not receive information that detailed how the PCFO would begin to track expenses to ensure that they were charged to the proper campaign period.

As illustrated in the PCFO and LFCC comments to the individual amounts questioned above (especially the IPA audit fees and CFC conference expenses), there appears to be a clear misinterpretation of the regulations regarding CFC expenses by the PCFO. So much so that it continues to disagree with items which are clearly, as indicated in our comments above, unrelated to the 2012 campaign. As a result, we are not confident that procedures instituted by the PCFO would correctly apply all CFC expenses to the correct campaign or if the LFCC, when reviewing the costs, would identify any expenses that were misapplied. Therefore, we suggest that the OCFC ensure that the procedures implemented are adequate and that both the LFCC and the PCFO understand the regulations related to CFC expenses.

Recommendation 5

We recommend that the OCFC and LFCC ensure that the PCFO implements procedures to ensure that only expenses related to the operation of the campaign are charged to the CFC.

PCFO/LFCC Response:

The PCFO and LFCC agree with this recommendation. The LFCC states that it will require the PCFO to provide procedures that ensure compliance and that it will provide appropriate oversight. Additionally, the LFCC stated that it will begin to review line item expenses on a bi-monthly basis.

OIG Comments:

Although the PCFO and LFCC state that they agree with the recommendation, they have demonstrated a clear misunderstanding of what constitutes a CFC-related expense. The PCFO should only charge expenses (directly or indirectly) that are clearly related to the CFC. For those unallowable amounts questioned above, it was very clear that the expenses were unrelated to the CFC.

2. Improper Matching of Receipts and Expenses

Procedural

The PCFO did not properly match CFC receipts and expenses as they relate to indirect (general overhead) expenses during 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; one campaign starting up (planning and collecting pledges) and another campaign 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.

Indirect general overhead expenses were not properly allocated to the appropriate campaigns and were instead charged to the 2012 campaign.

For the 2012 campaign, we found that the PCFO generally charged expenses recorded between April 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. Although direct expenses (i.e., pledge forms and other campaign specific materials) are usually charged early in the campaign, general overhead expenses (related to tracking incoming monies, disbursing funds, and closing the campaign) continue well after March 31, 2013, and therefore, should not have been fully charged to the 2012 campaign.

The PCFO indicated that it uses a fiscal year to charge campaign expenses and stated that the only expenses in the second year of the campaign are primarily postage and audit fees.

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/LFCC Response:

The PCFO and LFCC agree with this recommendation and state that policies and procedures have been instituted to accurately track and record campaign expenses throughout the two-year campaign period.

OIG Comments:

The PCFO and LFCC did not provide detailed information describing the policies and procedures that were implemented. Therefore, we could not determine if those policies and procedures are adequate to address the recommendation. We request that the OCFC review the procedures to ensure that all expenses, both indirect (general overhead) and direct, are charged to the correct campaign, considering that the PCFO merely charged expenses to the campaign currently in operation and that its responses to the administrative expense finding clearly show a misinterpretation of the regulations.

3. LFCC Approval of Campaign Expense Reimbursement

Procedural

The LFCC did not review or authorize the PCFO's reimbursement of actual campaign expenses.

The PCFO reimbursed itself for campaign expenses without receiving approval from the LFCC.

5 CFR 950.104(b)(17) states that it is the LFCC's responsibility to authorize the reimbursement of only those campaign expenses that are legitimate CFC costs and are adequately documented.

Additionally, 5 CFR 950.106(a) states that the PCFO shall recover campaign expenses, approved by the LFCC, which reflect the actual costs of administering the campaign.

Finally, CFC Memorandum 2008-09 states that the approval of actual expenses by the LFCC is separate from the approval of the expense budget. The LFCC must review actual expenses, authorize full or partial reimbursement, and document this authorization in its meeting minutes.

We reviewed the LFCC's meeting minutes to determine if the LFCC reviewed and authorized the PCFO's reimbursement of campaign expenses. After reviewing the meeting minutes, we found no record of their review or authorization of the reimbursement.

After discussions with both the LFCC and the PCFO, we found that both were under the impression that only the budgeted expense amount needed approval and that the PCFO could reimburse itself for all expenses that didn't exceed the budgeted amount. Neither was aware that the PCFO needed the LFCC's authorization prior to taking a full or partial reimbursement of campaign expenses.

As a result of not reviewing or authorizing the PCFO's reimbursement of actual campaign expenses, the LFCC ran the risk of unrelated expenses being charged to the organizations and federations in the campaign, thereby reducing the designated amounts due to them. Additionally, by not submitting its expenses for approval prior to reimbursement, the PCFO did not allow the LFCC to exercise its authority over the campaign to ensure that only legitimate CFC costs are charged to the campaign.

Recommendation 7

We recommend that the OCFC direct the LFCC to implement policies and procedures to review the PCFO's actual campaign expenses, which should be supported by itemized receipts and invoices to ensure that the costs are allowable and applicable to the campaign.

LFCC Response:

The LFCC agrees with this recommendation and states that procedures have been implemented to review the actual expenses related to the CFC.

Recommendation 8

We recommend that the OCFC direct the LFCC to implement policies and procedures to document its authorization and approval of the PCFO's reimbursement of actual campaign expenses.

LFCC Response:

The LFCC agrees with this recommendation and states that policies and procedures have been implemented in its standing meeting agenda to document authorization and approval of the PCFO's reimbursement of actual campaign expenses.

OIG Comments:

We reviewed the LFCC's standing meeting agenda (included in the Appendix) and did not identify any mention of the LFCC authorizing or approving the reimbursement of campaign expenses to the PCFO. The standing meeting agenda does include review of expenses, but does not include a step for approving reimbursement. The LFCC's review of expenses should not be confused with its approval and authorization of the reimbursement of campaign expenses to the PCFO.

Additionally, the actual authorization and approval of reimbursement is not something that is done at every LFCC meeting. The approval and authorization of the reimbursement of the PCFO's campaign expenses should only be performed around the time of the first and last campaign disbursement. At the first disbursement, the LFCC should authorize and approve all incurred and expected expenses for the campaign. At the final disbursement, the LFCC should review the actual expenses for the full campaign (approximately 24 months) and determine if the initial reimbursement was enough or if an additional amount should be paid to the PCFO (if too much was reimbursed initially, then the PCFO should return funds to the CFC).

Recommendation 9

We recommend that the OCFC and LFCC ensure that the PCFO implements policies and procedures to submit its campaign expenses to the LFCC for approval prior to reimbursing itself in the future.

PCFO/LFCC Response:

The PCFO and LFCC agree with this recommendation and state that policies and procedures have been implemented in its standing meeting agenda to ensure that the PCFO submits campaign expenses for approval prior to being reimbursed.

4. Obsolete PCFO Application Statement

Procedural

The LFCC selected CSM as the PCFO for the 2010 through 2012 campaigns even though the signed application contained a statement which is no longer applicable.

5 CFR 950.105(c) states that the application submitted by organizations applying for PCFO must include the following statements signed by the applicant's director:

- that the applicant will “administer the CFC fairly and equitably,”;
- that the applicant will “conduct campaign operations, such as training, kick-off and other events, and fiscal operations, such as banking, auditing, reporting and distribution separate from the applicant's non-CFC operations,”;
- that the applicant will “abide by the directions, decisions, and supervision of the LFCC and/or Director.”; and
- that the applicant's director acknowledges that it is subject to the provision of 5 CFR 950.603.

Additionally, the PCFO is no longer required to include a statement that it's subject to the provisions of 5 CFR 950.403. Federal Register Vol. 71, published November 20, 2006, removed 5 CFR 950.403 from the regulations.

We reviewed the PCFO's application to ensure that it was signed by an appropriate official, contained all required language per 5 CFR 950.105(c), and did not include a statement that the PCFO was subject to the provisions of 5 CFR 950.403. Our review found that the PCFO's application included the statement stating that it was subject to the provisions of 5 CFR 950.403.

The PCFO stated that it has used the same language in its application for years and did not make changes when regulation 5 CFR 950.403 was removed in 2006.

As a result of preparing and approving a PCFO application with an obsolete statement, the PCFO and LFCC have demonstrated a lack of familiarity with the regulations governing the CFC.

Recommendation 10

We recommend that the OCFC ensure that the PCFO and LFCC understand the regulations as they pertain to the CFC, and that they institute procedures to regularly review the CFC regulations so they are alert to changes when they occur.

PCFO/LFCC Response:

The PCFO and LFCC state that they agree with this recommendation and that they look forward to the February 2015 CFC training to obtain an update on the future changes related to the CFC.

OIG Comments:

The PCFO and LFCC agree with the recommendation, but they did not provide an explanation or corrective action plan to show how they would implement it.

As illustrated by the many findings and recommendations in this report, the PCFO and LFCC have an overall lack of understanding of the CFC regulations. It is their inherent duty in their roles as PCFO and LFCC to take an active role in knowing and understanding what the CFC regulations mean, and they should not rely solely upon CFC training to receive updates. The specific change in the regulations questioned here, although minor, occurred in 2006 and the PCFO and LFCC were unaware of it, even though this was a specific item addressed in the IPA AUP steps provided to them each year.

5. Performance Review of the PCFO by the LFCC

Procedural

The LFCC could not provide evidence that it assessed the PCFO's performance prior to renewing its multi-year agreement as required by the regulations.

We were unable to determine if the LFCC performed a review of the PCFO's prior campaign performance before renewing it for the 2012 campaign.

5 CFR 950.104(c) states that the LFCC may select a PCFO for up to three campaign periods, subject to renewal each year following a review of performance.

We reviewed the LFCC meeting minutes to determine whether the LFCC had conducted a performance review of the PCFO prior to renewing their agreement for the 2012 campaign and found no mention of a performance review. This review should be performed by the LFCC near the close of one campaign and prior to the start of the next. For the 2012 campaign, this would have occurred sometime between January and March 2012 (or earlier). In our pre-audit requests to the PCFO and LFCC, we asked that all meeting

minutes related to the 2012 campaign be provided. We were only provided minutes related to five meetings of the LFCC, all of which were after March 2012. A meeting of the LFCC that would have occurred during the period when a performance review would be expected, on February 22, 2012, was cancelled.

We requested that the LFCC provide further documentation to show that a performance review was done or provide an explanation as to why a review was not done. However, we did not receive a response from the LFCC.

As a result of not holding LFCC meetings during the time frame when a PCFO performance review would typically be completed and not responding to OIG questions regarding the performance review, we were unable to determine if the LFCC performed the review or properly renewed the PCFO for the 2012 campaign.

Recommendation 11

We recommend that the OCFC ensure that the LFCC understands its responsibilities under the Federal regulations, which include its review of the PCFO's performance prior to renewing a multi-year agreement.

LFCC Response:

The LFCC agrees with this recommendation and states that it has always reviewed the PCFO's performance prior to renewing a multi-year agreement and that it will ensure that future reviews are done and documented in the LFCC meeting minutes. It states that extenuating circumstances (LFCC Chair stepping down, Director of the Federal Executive Board (FEB) retiring, FEB offices moving to temporary quarters, and LFCC family illness) led to a time of bare bones oversight and as a result, the LFCC could not access records to support its review.

OIG Comments:

In its response, the LFCC states that it has always performed a review of the PCFO's performance prior to renewing it under a multi-year agreement, but that due to the extenuating circumstances cited, it could not provide documentation to support its claims. As a result, we still cannot determine whether the LFCC performed this required review.

Additionally, as demonstrated by the large number of findings and recommendations in this report, it is clearly apparent that the PCFO's performance was below average at best and that the LFCC should have, at least, considered replacing it at some point. However, based on the

LFCC's clear lack of understanding of its own responsibilities, we do not believe that the LFCC would have understood that the PCFO's performance was below standard and that many of its actions were in violation of the CFC regulations.

6. PCFO Solicitation Not Documented

Procedural

The LFCC did not retain documentation of its solicitation for PCFO for the 2010 campaign, in which it awarded a multi-year agreement.

5 CFR 950.104(c) states that the LFCC must solicit applications for a PCFO on a competitive basis no later than a date set by OPM, and that the application period must be open for a minimum of 21 calendar days.

Additionally, 5 CFR 950.104(a) states that "members of the LFCC should develop an understanding of campaign regulations and procedures."

Finally, 5 CFR 950.604 states that "Federations, PCFOs and other participants in the CFC shall retain documents pertinent to the campaign for at least three completed campaign periods."

We requested a copy of the public notice soliciting PCFO applications for the 2012 campaign, or if under a multi-year agreement the solicitation that covered that campaign, to determine if the applications were properly solicited. The PCFO and LFCC were unable to provide a copy of the solicitation, the dates for the application period, or the form of advertising. We were therefore unable to determine if the application period was open for the required amount of time, whether the application period closed by the required deadline, or whether the solicitation directed applications to be mailed to the LFCC.

By not retaining documentation of the solicitation for the current multi-year agreement, which includes the 2012 campaign, we were unable to determine if the LFCC adhered to its responsibilities set forth in the Federal regulations.

Recommendation 12

We recommend that the OCFC direct the LFCC to implement new policies and procedures to safeguard all documents pertinent to a campaign for at least three completed campaign periods in accordance with the records retention requirements of 5 CFR 950.604.

LFCC Response:

The LFCC agrees with the recommendation and states that it has implemented new procedures for it and the PCFO to ensure that CFC information is maintained for at least three completed campaign periods.

7. Sponsorship Agreement Approval

Procedural

We were unable to determine if the LFCC reviewed and approved a campaign sponsorship for the 2012 campaign.

CFC Memorandum 2006-5 states that the LFCC should review and approve sponsorship agreements to ensure that they are consistent with Federal law, ethical rules of conduct for Federal employees, and guidance issued by OPM.

Our review of expenses determined that a \$2,000 sponsorship was received for the 2012 campaign. We requested the sponsorship agreement and proof of LFCC approval of the sponsorship from the PCFO. The PCFO stated that there was no agreement received from the organization that provided the sponsorship. However, a copy of the CFC's sponsorship request and the cancelled sponsorship check was provided. The PCFO also stated that the approval to seek sponsorships went back to 2009 and that the sponsorship was discussed and approved as part of the budget approval process.

There were no meeting minutes, or other documentation, indicating that the sponsorship was approved for the 2012 campaign. In fact, there are no official LFCC meeting minutes for 2012 until August 16th, which was after the sponsor's check was received (June 29th).

By requesting and accepting sponsorships without LFCC approval or formal documentation thereof, we were unable to determine if the LFCC reviewed or approved the sponsorship or verified that the acceptance of the sponsorship was in compliance with applicable Federal regulations.

Recommendation 13

We recommend that the OCFC ensure that the LFCC understands its responsibilities under the CFC regulations and OPM guidance, which includes reviewing and approving each sponsorship agreement and properly documenting its decisions.

LFCC Response:

The LFCC agrees with the recommendation and states that it incorrectly issued a blanket approval to the PCFO to seek sponsorships. That being said, the LFCC will no longer seek sponsorships for future campaigns.

OIG Comments:

The LFCC should not dismiss the benefit of obtaining sponsorships because sponsorship monies obtained by the LFCC or the PCFO are used to defray the administrative costs incurred by the CFC and, thereby, directly increase the funds distributed to the charities of the campaign.

8. Separation of CFC Financial Records

Procedural

The PCFO is not maintaining all CFC financial records separate from its internal organization's financial records.

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

We reviewed the PCFO's general ledger to determine if it was maintaining the CFC's financial records separate from its corporate financial records. Our review found that the PCFO is not separating CFC financial records from its corporate records.

The PCFO exposed the CFC to the risk of campaign overcharges by comingling its financial records.

As part of our initial audit requests, we asked that the PCFO provide general ledger detail to support the amount that it was reimbursed for 2012 campaign expenses (\$121,217). The PCFO provided its corporate general ledger (with expenses totaling \$1,093,920), which did not include any CFC-specific accounts (some individual transactions could be identified as CFC-related). The PCFO was unable to provide the specific transactions that amounted to the \$121,217 reimbursed when requested. The PCFO stated that it did not detail allocations between CFC and corporate lines of business in its general ledger.

As a result of not maintaining CFC and corporate financial records separately, the PCFO is running the risk of overcharging expenses to the CFC that are related to other organizational activities.

Recommendation 14

We recommend that the OCFC and LFCC ensure that the PCFO institutes policies and procedures to track and report all CFC financial records separately from its corporate financial records.

PCFO/LFCC Response:

The PCFO and LFCC agree with this recommendation and state that “The LFCC has directed the PCFO to develop procedures that would continue the compliance with this recommendation.” The LFCC also stated that it would review the PCFO’s progress at a future LFCC meeting.

OIG Comments:

The LFCC states that it will direct “the PCFO to develop procedures to continue compliance with this recommendation.” Our issue with this statement is that there has not been compliance with the recommendation because the PCFO has simply commingled all financial records (both CSM and CFC) and was not able to provide us with CFC financial totals that matched the amounts it was reimbursed.

The separation of CFC financial records is of immense importance, so much so that multiple CFC regulations and memorandum cover this particular area. Specifically, 5 CFR 950.105(d)(8) as stated in the finding, 5 CFR 950.105(d)(7) regarding the PCFO maintaining a detailed schedule of its actual CFC expenses that reconciles to its budget, and 5 CFR 950.105(c)(2)(ii), where the PCFO provides a signed statement in its application that it will keep CFC banking, reporting, and distributions separate from non-CFC business.

With numerous regulations outlining what the PCFO must do regarding CFC expenses, it failed to follow them to the extent that when asked it could not provide an itemized list of expenses totaling the amount it was reimbursed for the 2012 campaign.

C. CAMPAIGN RECEIPTS AND DISBURSEMENTS

1. Undisbursed CFC Receipts

\$10,532

The PCFO did not properly record all 2012 campaign receipts, which resulted in \$10,532 in campaign funds not being disbursed to charities.

5 CFR 950.105(d)(8) states “All financial records and bank accounts must be kept in accordance with generally accepted accounting principles.”

Charities of the 2012 campaign did not receive \$10,532 in funds as a result of the PCFO’s errors in recording CFC receipts.

Additional, 5 CFR 950.901(i)(2) states “The PCFO is responsible for the accuracy of disbursements”.

We traced all receipts and disbursements from the CFC bank statements and reconciled them to the PCFO’s Campaign Receipts and Disbursement Schedule and to the transactions maintained in the PCFO’s accounting software to determine if all CFC funds received were properly disbursed. Our review found that \$10,532 in CFC funds was not disbursed. Based on our review, it appears as if the PCFO did not reconcile the amounts that it entered into its CFC software with the amounts recorded in its accounting software.

As a result of the PCFO not accurately recording all 2012 campaign receipts, \$10,532 in donations were not disbursed to the participating charities.

Recommendation 15

We recommend the OCFC and LFCC direct the PCFO to distribute \$10,532 in CFC funds to the charities that participated in the 2012 campaign.

PCFO/LFCC Response:

The PCFO and LFCC disagree with the recommendation and maintain that there was a misunderstanding between the software applications and the operations workflow for the campaign. The bank statements do not reflect transactions belonging to other campaign periods, but comparing the bank statements to the general ledger will identify to which campaign the transactions belong. We have provided the OIG with a detailed comparison of the bank statements to the general ledger and a detailed list of data entries to our CFC software.

OIG Comments:

Our review of the schedules provided by the PCFO and LFCC (one representing the amounts recorded in the general ledger and another representing the amounts reported in the CFC software) determined that the schedules did not reconcile. In our analysis of the additional documentation provided by the PCFO and LFCC, we relied upon the general ledger schedule and found that most of the information contained in the ledger reconciled to the bank statements. Further review determined that a majority of the \$10,532 questioned relates to

2012 CFC funds received between February 2013 and February 2014 (according to the PCFO's general ledger) that were not recorded in the CFC software which the PCFO utilizes to determine distributions to charities.

Recommendation 16

We recommend the OCFC and LFCC direct the PCFO to ensure their financial records are accurate and in compliance with CFC regulations.

PCFO/LFCC Response:

The PCFO and LFCC agree with the recommendation and state that they have instituted a work plan and check list to correct this.

OIG Comments:

The procedure check list and work plan provided by the PCFO and LFCC provide high level procedures. However, no detailed procedures were provided. As a result, we cannot determine if what the PCFO and LFCC plan to institute will be beneficial.

We do recommend that the PCFO institutes procedures to reconcile the bank statements, general ledger, and CFC software to ensure that all CFC receipts are recorded and that the receipts are applied to the correct campaign period.

2. Untimely Initial Disbursement

Procedural

The PCFO did not make the initial disbursement to organizations receiving quarterly distributions by the April 1, 2013 deadline set in the CFC Calendar of Events for the 2012 campaign.

5 CFR 950.901(i)(2) states that the PCFO will distribute all CFC receipts beginning April 1st, and quarterly thereafter. Therefore, the PCFO should have distributed all available funds with its first distribution by April 1st.

We reviewed the PCFO's Receipt and Disbursement Schedule and the disbursement check support to determine if the PCFO made an initial disbursement by April 1, 2013.

A review of the actual disbursement check support showed that the PCFO did not make the first disbursement until April 26, 2013.

We inquired as to why the disbursements were sent after the deadline and were informed that the initial disbursement for organizations receiving one-time disbursements was made on March 29, 2013. However, the initial disbursement to organizations receiving quarterly distributions was not made until April 26th.

According to the PCFO, it considers the one-time disbursements the initial disbursement and the quarterly disbursements to be the second disbursement. The PCFO also stated that it has disbursed CFC funds using this method for at least the last 10 years.

By not making initial disbursements to all organizations by the deadline set in the CFC Calendar of Events, the PCFO delayed funds that the charities were planning to receive for maintaining operations.

Recommendation 17

We recommend that the OCFC and LFCC require the PCFO to institute procedures to ensure that it adheres to the CFC Calendar of Events deadlines for disbursing campaign funds to all organizations, including one-time and quarterly disbursements.

PCFO/LFCC Response:

The PCFO and LFCC state that they disagree with the finding, but agree with the recommendation. They “understood ‘begin to distribute’ as a timeframe, not an absolute date. The LFCC has directed the PCFO to institute procedures to comply with this recommendation”

OIG Comments:

Again, the PCFO and LFCC’s response clearly shows their lack of understanding of the CFC regulations. In the case of this finding, while they state that they don’t agree with the issue, they will change their procedures to adhere to the recommendation.

The CFC Calendar of Events, which the PCFO and LFCC referred to in their response, is provided to the PCFO and LFCC as a reminder mechanism for important deadlines during the campaign and does not replace the regulations. Additionally, the Calendar of Events in this case directs the PCFO and LFCC to 5 CFR 950.901(i)(2), which states that the PCFO will distribute all CFC receipts beginning April 1st, and quarterly thereafter.

It should also be noted that the CFC Audit Guide, which both the PCFO and LFCC should be fully acquainted with, includes steps for the IPA to determine if disbursements were begun

by April 1st. The Audit Guide also states that if a campaign has limited funds as of April 1st then the order of precedence would be to have the PCFO expense reimbursement paid first, followed by one-time disbursements, and then by the quarterly/monthly disbursements. Based on our review, as of the April 1st deadline the Northern Lights CFC had enough funds on hand by March 31st to make all necessary disbursements.

3. Improper Authorization of One-Time Disbursements

Procedural

The LFCC did not authorize one-time disbursements or approve a threshold amount for the 2012 campaign.

5 CFR 950.901(i)(3) states that the PCFO may only make one-time disbursements to organizations receiving minimal donations if the LFCC authorizes them and approves the threshold amount of the disbursements.

Additionally, 5 CFR 950 defines an LFCC as “the group of Federal officials designated by the Director to conduct the CFC in a particular community.”

We reviewed the LFCC meeting minutes and other communications to determine if the LFCC authorized one-time disbursements and approved a threshold amount. We were unable to identify in the LFCC meeting minutes where the LFCC approved or authorized the amount of one-time disbursements. The PCFO provided a copy of an email request that was made to the LFCC requesting approval to make one-time disbursements, which was approved by the chair of the LFCC.

We requested the LFCC to provide documentation that this was voted on by all LFCC members or to provide an explanation as to why it was not. We did not receive a reply from the LFCC.

By definition the LFCC is a “group of Federal officials” and not only the chairperson. Therefore, the approval of the one-time disbursements by the LFCC chairperson alone was not a valid decision of the LFCC as a “group of Federal officials.”

As a result of the LFCC chairperson improperly making CFC decisions for the LFCC as a group, the LFCC membership did not have an opportunity to exercise its authority in administering the CFC.

Recommendation 18

We recommend that the OCFC ensure that the LFCC has instituted procedures to ensure that decisions related to one-time disbursements are voted on by its members and that the vote is recorded in the minutes of an LFCC meeting.

PCFO/LFCC Response:

The PCFO and LFCC agree with the recommendation.

4. One-Time Disbursement Threshold Applied Incorrectly

Procedural

The PCFO made quarterly disbursements to 10 organizations that received designations below the threshold for one-time disbursements.

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

We reviewed the disbursements made by the PCFO to determine if it properly disbursed funds to organizations that met the threshold amount utilized by the PCFO when making the one-time disbursements. During our review we identified 10 organizations that met the criteria to receive one-time disbursements and received quarterly disbursements instead. The PCFO was uncertain as to why this occurred.

As a result of not applying the one-time disbursement threshold correctly, the quarterly disbursements made to organizations of the 2012 campaign were not accurate. It should be noted that the result of the error was determined to be immaterial.

Recommendation 19

We recommend that the OCFC and LFCC direct the PCFO to institute policies and procedures to ensure that one-time disbursements are made to all organizations that meet the pre-determined threshold.

PCFO/LFCC Response:

The PCFO and LFCC agree with the recommendation and state that the LFCC has directed the PCFO to institute procedures to ensure that one-time disbursements are made to all organizations that meet the pre-determined threshold set by the LFCC.

5. Outstanding Check Procedures

Procedural

The PCFO did not follow its policies and procedures for the disposition of un-cashed checks.

CFC Memorandum 2006-5 directs PCFOs to develop and follow policies and procedures regarding the disposition of un-cashed checks. The procedures should include at least three documented attempts to contact the payee. The policy should be documented and implemented when a check remains un-cashed after six months. Our review of the PCFO's policies and procedures for un-cashed checks did not identify any discrepancies with the memorandum.

However, when we reviewed the PCFO's Outstanding Checks List to determine if any checks were outstanding for six months or more, we discovered four checks that were outstanding for more than six months. We asked the PCFO to provide documentation of the follow-up attempts made to the organizations. The PCFO replied that it overlooked the four checks and that attempts to contact the payee had yet to be made. The PCFO stated that it has since attempted to contact the organizations.

As a result of not following its procedures for un-cashed checks, CFC funds were not received by these organizations in a timely manner or distributed properly as undesignated funds if these organizations were no longer operating.

Recommendation 20

We recommend that the OCFC and LFCC ensure that the PCFO is properly following its policies and procedures for handling un-cashed checks.

PCFO/LFCC Response:

The PCFO and LFCC agree with this recommendation and state that the LFCC has directed the PCFO to provide an outstanding check report at each meeting of the LFCC.

OIG Comments:

The PCFO and LFCC's suggested corrective action is incomplete. Merely reporting on outstanding checks at an LFCC meeting does not meet the requirements of CFC Memorandum 2006-5, which were not followed during the 2012 campaign. We suggest that this report include detail as to the attempts made to contact the payee after a check has been outstanding for more than 6 months. The LFCC should also require the PCFO to maintain documentation of those attempts to contact the payees.

6. Pledge Form Errors

Procedural

Our review identified four pledge forms with various errors.

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

Additionally, 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 mathematical calculations, and to ensure the donor's release of personal information is filled out properly.

5 CFC 950.402(d) provides guidance for the handling of pledge forms with mathematical errors present on them. In all cases, the guidance instructs the PCFO to "honor the total amount pledged" on the pledge form.

Finally, 5 CFR 950.105(d)(6) states that it is the responsibility of the PCFO to honor the wishes of donors who choose not to release any personal information.

We reviewed a sample of 75 pledge forms to determine if the pledge form data matched the PCFO's pledge form report. Specifically, we verified the donor name, charity code number and amount donated, total amount donated, and the donor's choice to release their personal information. Our review of the PCFO's data entry accuracy identified four pledge forms with errors.

Specifically, our review identified the following errors:

- One special event pledge form had multiple alterations that put the total gift in doubt. Our review of the pledge form found two amounts (\$1,167.93 and \$2,075.50) entered into the total gift box of the pledge form. The pledge form also had two different amounts entered as a designation to the one charity listed (\$2,075.50 and \$2,068.50). The PCFO's database listed both the total gift and designation for this pledge form as \$2,068.50. As no other supporting documentation was provided, we cannot determine if the amount entered by the PCFO was correct.
- One pledge form had multiple alterations. First, the total gift amount was changed from \$2,600 to \$1,600 and individual amounts to the five charities from \$520 each to \$320 each. No donor initials were present, so we cannot determine who made these changes. Additionally, the pay period amount was changed from \$100 per pay period to \$61.54 (again we could not determine who made this change).

Finally, the PCFO, considering that the \$61.54 pay period amount times 26 pay periods equals \$1,600.04, altered the total gift amount to \$1,600.04 rather than accept the total gift amount as the regulations stipulate. The PCFO then added \$0.01 to four of the five charities receiving designations.

- One pledge form where the pledge form database indicates the donor chose to release their address. However, a review of the pledge information showed that the donor did not make this choice. The PCFO stated that this was the result of a data entry error.
- One pledge form where the charity code did not match the charity code on the pledge form report. The PCFO indicated that this was a data entry error on its part.

As a result of these errors, the PCFO did not meet its responsibility to honor employee designations.

Recommendation 21

We recommend that the OCFC and LFCC direct the PCFO to ensure its pledge form processing procedures are followed, especially those procedures regarding pledge forms with apparent mathematical errors so that the “total gift” amount is always the amount honored.

PCFO/LFCC Response:

The PCFO and LFCC disagree with this recommendation (related to the first two bullets) stating that the PCFO currently has procedures in place for this situation. Specifically, it states that it has provided the OCFC with a pledge form problem resolution matrix, which documents the procedures in place, annually for 10 years.

OIG Comments:

We reviewed the pledge form processing procedures provided by the PCFO and LFCC and determined that they follow the requirements of the regulations with one exception. In its steps to resolve issues related to situations where the “per pay period total does not equal the total gift due to rounding” its resolution is to assign a proportionate share to each designation using the dollars per pay period. This is incorrect.

The only time a charity designation should be adjusted is when those individual designations exceed the total gift. The PCFO should never consider the “per pay period total” when determining if a pledge form is completed correctly. The only things it should pay close

attention to are the total gift and the individual amounts designated to charities. The payroll office of the donor will determine how much is deducted from their pay check based on the total gift (divided by the number of pay periods) and not based upon what the donor enters into the pay period amount section of the pledge form.

The two pledge form errors disputed by the PCFO and LFCC are still questioned because, although the resolution matrix procedures have steps to correct the errors identified, the errors still occurred. We understand that errors occur from time to time, but the PCFO should strive to ensure that all of its procedures are followed consistently so that all pledge forms are recorded correctly.

Recommendation 22

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 and state that the PCFO has implemented procedures (as directed by the recommendation) for the 2014 campaign.

D. ELIGIBILITY

1. LFCC Members

Procedural

Only 7 of the 15 LFCC members attended at least 50 percent of the meetings at which attendance was recorded and the LFCC did not achieve 50 percent attendance at any of these meetings. Additionally, the LFCC did not hold meetings regarding the 2012 campaign until August 2012, missing the opportunity to make important campaign decisions required of it by the Federal regulations.

The LFCC could not demonstrate adequate oversight of the CFC.

According to 5 CFR 950.101 the LFCC is “the group of Federal officials designated by the Director 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.”

Finally, 5 CFR 950.104 (b) outlines the LFCC's responsibilities, which include, but are not limited to:

- Maintaining minutes of LFCC meetings;
- determining the eligibility of local voluntary organizations;
- monitoring the work of the PCFO and ensuring compliance with the regulations;
- authorizing reimbursement of campaign expenses;
- encouraging Federal agencies to appoint Loaned Executives to assist in the campaign;
- ensuring that Federal 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.

We reviewed the list of LFCC members, their terms of service during the 2012 campaign, and the LFCC meeting minutes to determine if the members were active. To determine if the members were active we utilized the quorum requirements of Roberts Rules of Order (that a "quorum is a majority of the entire membership") that at least 50 percent of the members should be in attendance at each meeting. Our review of the three meetings at which attendance was recorded in the minutes found that none of the meetings had at least 50 percent attendance. Further review found that only 7 of the 15 members attended at least half of the meetings and that 4 members did not attend any meetings.

Through discussions with the PCFO and LFCC, the LFCC indicated that sometimes members would call in for meetings and that the campaign spans across five states making it difficult for members to attend meetings in person. Additionally, the LFCC stated that the members that called in were not usually included on the attendees list. We subsequently asked the PCFO and LFCC to provide updated attendee lists for the meetings, but they were unable to provide any additional information.

Additionally, we noted that the LFCC did not hold meetings related to the 2012 campaign until August 2012, and that only one meeting was held during calendar year 2012. The period of January through July 2012 was a crucial time frame for the 2012 campaign, when many important campaign decisions and approvals (such as selection of or renewal of the PCFO, approval of one-time disbursements, review of charity applications, and approval of campaign expense reimbursements) should have taken place, all of which are required by the regulations.

None of the meeting minutes provided contained any information on decisions made by the LFCC. The LFCC and PCFO stated that not all meeting minutes were maintained due to various factors such as email cleanout and computer crashes. The LFCC also indicated that it

conducted many of its decisions via email communications. However, it was unable to provide documentation of any decisions made by email.

As a result of poor attendance at meetings, the LFCC is not benefiting from those members' input or votes on decisions and approvals. Additionally, by not holding meetings from January through July 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.

LFCC Response:

The LFCC does not concur with portions of the finding. It states that despite numerous obstacles, the LFCC and PCFO still had meetings in January, February, April, and June of 2012. In its January 2012 meeting the 2012 budget was approved, the CFC awards breakfast plans were finalized, and the performance of the PCFO was reviewed. The PCFO was unable to provide minutes of the meeting, but states that the fact that the CFC awards breakfast was held on February 16, 2012, after which the LFCC met to review charity applications, is evidence of the January 2012 LFCC meeting actually occurring.

The LFCC also states that there were many extenuating circumstances that affected its meetings in 2012 and that failure to acknowledge these circumstances has distorted the LFCC's performance, which has always been conscientious and dedicated.

OIG Comments:

The LFCC did mention much of this information to the OIG auditors during our on-site visit. However, without documentation in LFCC meeting minutes (which are required by the regulations) we could not, and still cannot, prove that these meetings actually took place or if there were an adequate number of members in attendance to make them valid meetings. The LFCC's overall lack of attention to detail by not recording meeting minutes or including all discussions and decisions in those meeting minutes kept is very concerning. In the LFCC's role of oversight of the CFC attention to detail is of utmost importance.

Recommendation 23

We recommend that the OCFC direct the LFCC to record attendance at all meetings, including those members attending via telephone.

LFCC Response:

The LFCC states that it agrees with the recommendation.

OIG Comments:

The LFCC agreed with the recommendation, but in its efforts to explain the many extenuating circumstances encountered during the 2012 campaign, it failed to provide a corrective action plan related to this recommendation.

Recommendation 24

We recommend that the OCFC direct the LFCC to ensure that its meeting minutes are maintained in accordance with the regulations.

LFCC Response:

The LFCC agrees with the recommendation and states that meeting minutes are retained for three campaign periods according to the regulations.

OIG Comments:

The LFCC states that it maintains all meeting minutes. However, we were not provided any meeting minutes prior to August 16, 2012. Therefore, it is our opinion that the OCFC should direct the LFCC to ensure that all of its meetings have minutes taken.

Recommendation 25

We recommend that the OCFC direct the LFCC to ensure that it meets during those periods when approvals required by the Federal regulations are to be made, or at a minimum, holds an email poll of the members to record their votes on those matters and record those votes in the next meeting's minutes.

LFCC Response:

The LFCC agrees with the recommendation and states that it pre-schedules its meetings on a bi-monthly basis and that procedures will be added to incorporate e-mail voting and the documenting of those votes in the meeting minutes.

E. PCFO AS A FEDERATION

1. Federation Dues Incompletely Described

Procedural

The PCFO charged its federation members' dues although its Annual Report did not include the required description as required by the regulations. Additionally, as this required information was not included by the PCFO in its Annual Reports, the LFCC should not have accepted the PCFO's federation application to participate in the CFC.

5 CFR 950.303(e)(2)(iii) requires that a federation's annual report must include an accurate description of the federation's membership dues and/or service fees received by the federation from the charitable organizations' participating members. The information must clearly present the amounts raised, the sources of contributions, the cost of fundraising, and how costs are recovered from donations.

We reviewed the PCFO's 2012 annual report to determine if it contained an accurate description of any membership dues or service fees charged to its federation members for participating in the CFC. The annual report lists the total amount collected for dues and the cost of fundraising during 2012. However, it did not include sources of contributions or how the costs were recovered from donations. Additionally, we requested a copy of any written agreements between the PCFO and its federation members, but were informed by the PCFO that there were no such agreements. The PCFO stated that they believed that showing the amount of dues collected was sufficient for compliance with the regulations.

Additionally, the LFCC accepted the PCFO's federation application for the 2012 campaign although the required description of membership dues was not included in its Annual Report. The simple inclusion of the dues and fundraising amounts does not meet the regulation requirement to also clearly present "the sources of contributions" and "how costs are recovered from donations."

As a result of its lack of understanding of the regulation requirement, the PCFO is not meeting its requirements as a federation member of the CFC. Additionally, by accepting the PCFO's application to participate as a federation, the LFCC risks permitting participation in the CFC by federations that do not follow the regulations.

Recommendation 26

We recommend that the OCFC and LFCC direct the PCFO to include information describing the sources of contributions and how costs are recovered from donations in its future annual

reports. If this information is not included, the PCFO should not be permitted to participate as a federation in future campaigns.

PCFO/LFCC Response:

The PCFO and LFCC agree with the recommendation and state that the PCFO is not currently serving as a federation.

OIG Comments:

It should be noted that if the PCFO chooses to serve as a federation in the future then it must update its annual reports to include the required information.

Recommendation 27

We recommend that the OCFD direct the LFCC to ensure that all federations accepted to participate in the CFC meet all of the requirements for membership as outlined in 5 CFR 950.303. If any requirement is not met, the application should be denied.

PCFO/LFCC Response:

The PCFO and LFCC agree with the recommendation and the LFCC has directed the PCFO to include this item as part of the LFCC charity review training provided each year.

F. FRAUD AND ABUSE

Our review found that CSM had no policies and procedures in place related to fraud and abuse. It is our opinion that the findings identified in this audit were not the result of fraud. However, CSM's lack of fraud policies and procedures may have weakened its efforts in protecting CFC funds and assets from instances of fraud and abuse. As part of our audit we did notify CSM of our concerns and suggest that they put policies and procedures related to fraud in place.

G. DISPOSITION OF THE CAMPAIGN

Based on the number of findings, the nature of the issues identified in this report, and the PCFO and LFCC's lack of understanding of the CFC regulations, it is our opinion that the PCFO and LFCC are not equipped to handle the responsibilities of the CFC.

5 CFR 950.101 defines the PCFO as the organization tasked with administering the local campaign. Additionally, 5 CFR 950.105 outlines specific responsibilities of the PCFO. Lastly, all of the remaining CFC regulations related to the administration of the local CFC apply to and must be followed by the PCFO.

The PCFO and LFCC are not equipped to properly administer and oversee the CFC.

The PCFO did not follow or display competent knowledge and understanding of the CFC regulations and/or guidance related to the following areas:

- Proper charging and tracking of CFC expenses;
- Expense reimbursement approval;
- Correct PCFO application language;
- Segregation of CFC financial records;
- Disbursement of all CFC monies received;
- Proper timing of CFC disbursements;
- Proper pledge form procedures;
- Federation member dues descriptions in the Annual Report;
- One time disbursement application; and
- Outstanding check procedures.

5 CFR 950.101 defines the LFCC as a group of Federal officials charged with conducting the CFC in a particular community. Additionally, 5 CFR 950.104 outlines the oversight responsibilities of the LFCC.

The LFCC did not follow or display competent knowledge and understanding of the CFC regulations and/or guidance related to the following areas:

- Expense reimbursement approval;
- PCFO application language;
- Federation application review;
- PCFO performance reviews; and
- One time disbursement and sponsorship agreement approvals.

Additionally, the LFCC displayed a lack of involvement in its role of oversight as displayed in the following areas:

- Lack of regular LFCC meetings;
- Poor LFCC member attendance at meetings;
- Lack of documentation of LFCC decisions required by the CFC regulations; and
- Lack of responsiveness to questions during our audit.

As a result of the numerous findings, the nature of the issues identified in this report, the LFCC and PCFO's lack of adherence to and/or lack of understanding of the CFC regulations, and the PCFO and LFCC not meeting their responsibilities for administering and conducting an effective and efficient campaign, we have made the following recommendations:

Recommendation 28

We recommend that the OCFC seek to merge the Northern Lights CFC with another campaign or ensure that the campaign is administered by a new PCFO that is equipped to handle the responsibilities of the CFC.

PCFO/LFCC Response:

The PCFO and LFCC disagree with the recommendation and state that the facts do not support the recommendation as they do not agree with a majority of the findings. Additionally, they state that all of the findings agreed to have been addressed. They also state that the competency of the Northern Lights CFC is evidenced by the successful campaigns that have demonstrated leadership in innovative promotion and technological improvements.

OIG Comments:

The first job of the PCFO and LFCC is to ensure that an effective and efficient campaign is conducted each year **in accordance with the regulations of the CFC**. Although the parties involved may have had the best interest of the charities in mind while running the campaigns, the regulations related to the CFC appeared to be of secondary interest.

Based on our review of the Northern Lights CFC, the many findings and recommendations, and the consistent comments by the PCFO and LFCC which demonstrate a lack of understanding of the regulations, it is our opinion that our recommendation is valid and that the OCFC should consider replacing the PCFO.

Recommendation 29

Additionally, as a result of the LFCC's lack of involvement in its role of conducting and overseeing the campaign, we recommend that the OCFC seek to replace the LFCC.

PCFO/LFCC Response:

The PCFO and LFCC disagree with the recommendation and state that although the LFCC had significant turnover during the 2012 campaign, its chair and Federal Executive Board Director

have attended the last two CFC training conferences. Additionally, they feel that a majority of the findings in the report have been addressed and were operational for the 2013 campaign. Lastly, they feel that the LFCC Board is very involved in all levels of the Northern Lights CFC.

OIG Comments:

We understand that the LFCC had experienced significant turnover around the start of the 2012 campaign. We have no evidence to indicate if the LFCC has maintained better records or had better member attendance at meetings since our audit in June 2014. Therefore we cannot determine if those issues have improved or not.

However, by the start of our audit and the time we received the response to our draft report, those new members of the LFCC had been in place for almost three years. Additionally, as evidenced by the many responses that demonstrate a lack of understanding of the regulations pointed out in this report, the LFCC still does not have a grasp of the basics of the CFC and its oversight.

As a result, we suggest that either the OCFC work closely with the current LFCC over the next few campaigns or that the OCFC consider replacing the LFCC.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

[REDACTED], Auditor-In-Charge

[REDACTED], Auditor

[REDACTED], Group Chief, [REDACTED]

[REDACTED], Senior Team Leader



Northern Lights
 COMBINED FEDERAL CAMPAIGN
 December 19, 2014

Deleted by OIG – Not Relevant to Final Report

Group Chief, Special Audits Group
 United States Office of Personal Management
 Office of the Inspector General, Office of Audits

RESPONSE: Report No. 3A-CF-00-14-048

Deleted by OIG – Not Relevant to Final Report

Enclosed is our response to your draft report detailing the results of the audit of the 2011 and 2012 Northern Lights Combined Federal Campaign (CFC). Community Shares of Minnesota, located in St. Paul, Minnesota, served as the Principal Combined Fund Organization (PCFO) during both campaigns. We have responded to all findings contained in the draft report by annotating the report itself. The responses are contained at the end of each recommendation in **BOLD BLUE**.

We expect that the attached documentation and responses, which include action plans, most of which are already in place, will resolve the findings and the conclusions for the final report. Although some findings are valid, we are disappointed by the fact that most findings to which we have responded were discussed with the auditors and our comments were not included in the draft report.

We consider this report as an opportunity to correct deficiencies and make improvements, and continue in our passion for CFC with conscientious oversight.

Sincerely,



Northern Lights CFC Co-Chair
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 Federal Aviation Administration
 Minneapolis Approach Control (M98)
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CFC Manager
 Community Shares of Minnesota
 1619 Dayton Ave. Suite 323
 St. Paul, MN 55104

Deleted by OIG – Not Relevant to Final Report

OIG Comment: As the PCFO and LFCC’s responses to the draft report findings and recommendations were imbedded within the body of the draft report, we extracted only those comments that were relevant to the Final Report as follows. Please note, we adjusted the recommendation numbers, where necessary, to coincide with our final report.

Agreed-Upon Procedures Not in Compliance with the Audit Guide

Recommendation 1: We agree with this recommendation. The LFCC will ensure that the IPA fully understands the CFC and applicable regulations by conducting a meeting with the IPA prior to 2013 Audit. We expect notification of the upcoming Audit in March of 2015. Once we receive notification, we will schedule a meeting with the IPA to review the CFR, the current Audit Guide AUPs, and findings of the 2012 OIG Audit. We will discuss the Audit Guide steps, and encourage them to contact the OCFC during the Audit if they are unsure of how to complete the required procedures.

Recommendation 2: We agree with this recommendation.

Administrative Expenses

\$3,900 in audit fees related to the IPA audit of the 2011 campaign: We do not concur with this finding. The \$3900 in audit fees was budgeted for the 2012 audit, which was scheduled for late spring 2014. This expected expense was included in the final 2012 expense report to the LFCC in March of 2014, meeting the requirement to close out 2012 with the last distribution by March 31.

In late February, 2014, we were advised by OCFC that we would have an OIG audit, and the regular IPA audit would not be required. We were also told that we should estimate expenses associated with the OIG audit. We made the decision to let the \$3900 already budgeted for the IPA audit stand as our estimated expense for the OIG audit.

\$2,685 in travel-related fees for the 2013 CFC Conference: We do not concur with this finding. The attendance and expenses for the 2013 CFC conference occurred during the 2012 campaign, and were budgeted as part of that campaign. At the time the registrations were required, there was no approved 2013 budget.

We believe the appellation of “2013 Conference” is more appropriately considered the calendar year of occurrence. The agenda of the 2013 Conference encompassed review of 2012 experiences in the credit card pilot and the Universal Giving pilot, as well as non-campaign-

specific training, and discussion of 2016 changes-to-come. Per CFR part 950, campaign expenses are charged to the year of the campaign. We contend that the expenses were appropriately charged to the 2012 campaign.

\$550 in banking fees related to the 2011 campaign: We agree these are 2011 expenses that were mistakenly charged to 2012.

\$158 in setup fees related to the 2013 campaign line of credit account: We agree with this finding. The PCFO has instituted a checklist that will be utilized annually as campaigns transition.

\$105 in equipment lease fees that were related to the 2011 and 2013 campaigns: We agree with this finding.

\$11 in insurance expense overcharged to the CFC: We agree with this finding.

\$256 in banking fees related to accounts not utilized by the CFC: We do not concur with this finding. This amount is from the Western Bank account which is the operations account for CSMN. CSMN pays the expenses of CFC, and the \$256 in fees represent the percentage share that is charged to CFC as an appropriate reimbursable expense.

\$140 in CFC banking and credit card fees: We do not concur with this finding. The \$140 reimbursed fees represent fees associated with credit card payments by individuals for an event such as the Awards breakfast. It is not a donation. The payments went through the CSMN operations account, not the CFC bank account, thus it is a reimbursable expense.

\$23 in cell phone setup charges related to expenses for employees that do not charge time to the CFC campaign: We do not concur with this finding. An examination of the invoice shows no reference to cell phone repair charges. The invoice refers to providing information for staff members and contractor that was necessary to synchronize personal cell phones to CSMN network after a new server was installed. The referenced amount is a contractor who provides assistance to CFC in financial accounting requirements for Audit, 990 and CSMN finance committee, and communication is necessary to the CFC in scheduling meetings.

Recommendation 3: We do not concur. We propose that this amount is minimal and requires no further action.

Recommendation 4: We agree with this recommendation. The LFCC shall require the PCFO, beginning with the annual budget review in January, to provide procedures that ensure compliance and will provide appropriate oversight per the recommendations.

Recommendation 5: We agree with this recommendation. The LFCC shall require the PCFO, beginning with the annual budget review in January, to provide procedures that ensure compliance and will provide appropriate oversight per the recommendations. Specifically, line item review of expenses will be included in bi-monthly LFCC reviews.

Improper Matching of Receipts and Expenses

Recommendation 6: We agree with this recommendation. The LFCC and PCFO have instituted policies and procedures to accurately track and record campaign expenses throughout two year campaign period.

LFCC Approval of Campaign Expense Reimbursement

Recommendation 7: We agree with this recommendation. Policies and procedures have been implemented to review the PCFO's actual expenses and itemized receipts for 2013 and 2014 campaign.

Recommendation 8: We agree with this recommendation. Policies and procedures have been implemented to document authorization and approval of PCFO's reimbursement of actual campaign expenses. (See Standing Agenda on page 56)

Recommendation 9: We agree with this recommendation. Policies and procedures have been implemented for the approval process of submitted campaign expenses prior to reimbursement to the PCFO. (See Standing Agenda on page 56)

Obsolete PCFO Application Statement

Recommendation 10: We agree with this recommendation. The LFCC Co-chairs, and vice chair and PCFO look forward to receiving OCFC's guidance regarding future changes related to CFC's structure and requirements at the training scheduled for February of 2015. The scheduled March LFCC meeting will include Briefing on conference topics and CFC changes.

Performance Review of the PCFO by the LFCC

Recommendation 11: We agree with this recommendation. The LFCC has always reviewed the PCFO's performance prior to renewing a multi-year agreement. The LFCC will ensure a full review is done and fully documented in minutes for the final year of this multi-year agreement.

In January, 2012, the LFCC experienced a major transition: the FEB Director retired, the LFCC Chair stepped down, the FEB offices moved to temporary quarters, and the new LFCC Chair's father became ill, necessitating her to take an extended time off. The meetings were still held as described above, however these extenuating circumstances led to a time of bare bones oversight, and not reflective of normal policies and procedures of this committee. Minutes and documentations were housed at FEB offices at the time. The transition of people and location, including computer records led to a short time when we could not access records.

PCFO Solicitation Not Documented

Recommendation 12: We agree with this recommendation. New procedures are in place so that the LFCC, MN FEB, and PCFO all have a method to safeguard documents pertinent to a campaign for three completed campaign periods.

Sponsorship Agreement Approval

Recommendation 13: We agree with this recommendation. The LFCC did give blanket approval to the PCFO to seek sponsorships at a meeting prior to 2009. The campaign no longer seeks sponsorships, and has not since 2013.

Separation of CFC Financial Records

Recommendation 14: We agree with this recommendation. The LFCC has directed the PCFO to develop procedures that would continue the compliance with this recommendation. The LFCC will review PCFO's progress at scheduled March LFCC meeting.

Undisbursed CFC Receipts

Recommendation 15: We do not concur with this finding. We contend there was a misunderstanding of the software applications used and the operations workflow for the

campaign. The bank statements do not show the appropriate campaign year for deposits, whereas the General Ledger does. Comparing the bank statements with the General Ledger makes this clear. The PCFO has provided the auditor with a detailed comparison of the bank statement to General Ledger, and detail of the date entries into CFC Assistant (the disbursement software) from the General Ledger.

Recommendation 16: We agree with this recommendation. See LFCC Work Plan and PCFO Check List.

Untimely Initial Disbursement

Recommendation 17: We do not concur with findings, but do agree to recommendation. The PCFO and the LFCC understood “begin to distribute” as a timeframe, not an absolute date. The LFCC has directed the PCFO to institute procedures that comply with this recommendation for 2014 disbursements.

Improper Authorization of One-Time Disbursements

Recommendation 18: We agree with this recommendation.

One-Time Disbursement Threshold Applied Incorrectly

Recommendation 19: We agree with this recommendation. The LFCC has directed PCFO to institute policies and procedures to ensure one-time disbursements are made to all organizations and meet pre-determined threshold.

Outstanding Check Procedures

Recommendation 20: We agree with this recommendation. The LFCC has directed the PCFO to provide an outstanding check report at the LFCC’s bi-monthly meetings.

Pledge Form Errors

Recommendation 21: We do not concur with all of the findings, and overall agree with the recommendation. Addressing the findings individually, we disagree with the first two and concur with the second two findings.

We contend that Annual Audit Guide, Appendix B, #3 addresses this recommendation and that procedures are in place. A resolution matrix (See pages 57 and 58) has been submitted annually for 10 years to the OCFC, and has been accepted. This matrix documents the procedures that have been in place.

Recommendation 22: We agree with this recommendation. The LFCC has directed, and the PCFO has implemented this procedure that was included in key worker training for the 2014 campaign.

LFCC Members

Recommendation 23: We agree with recommendation, but we do not concur with all of the findings. The LFCC did meet in January at the MN FEB office in their temporary location. At this meeting, the 2012 Budget was approved, the CFC Awards breakfast plans were finalized, and the performance of PCFO was reviewed. This was explained to the auditor, and though we could not produce minutes, we can show that it is evident by the resulting events. On February 16, 2012 we held our Awards Breakfast, after which we also held a meeting to set the date of our charity application review. The charity review was held in April, as evidenced by application review sheets which were signed by LFCC members.

Additionally, there were several extenuating circumstances that affected our meeting schedule January through April of 2012.

- The MN FEB Director and vice-chair of the LFCC retired December 31st, 2011.
- The LFCC Chair was new in position in January of 2012.
- The New LFCC Chair's father was diagnosed terminally ill on January 3, and passed away on January 27th, requiring her absence to from work, and only availability by phone for a period of time. At the same time, the Chair's work computer crashed, and all documents prior to this were lost.
- The PCFO CFC manager suffered sudden loss of a brother and sister between December, 2011 and April, 2012 which required her absence.
- The Assistant FEB Director stood in as vice-chair during this time, until new MN FEB director came on board, which was spring of 2012.

- The new LFCC chair and campaign co-chair attended the OPM CFC training for first time in late February 2012.
- The MN FEB office was temporarily moved, due to renovations of the Federal building, and computer records were not able to be recovered when office was moved to its temporary location. This was complicated by the retired FEB director not being available after December 31, 2011.

Despite the numerous obstacles we faced in this timeframe, the LFCC and PCFO still had meetings in January, February, April, and June to conduct our business. In addition we held a successful Awards Breakfast, we conducted our charity review, we attended OPM training, and planned for the upcoming 2012 campaign. We utilized email to approve artwork and theme for 2012 campaign in May of 2012. None of this could have been accomplished if we did not meet. We contend that failure to acknowledge these circumstances that were explained to the auditor has distorted LFCC performance which we contend has always been conscientious and dedicated.

Recommendation 24: We concur with this recommendation. Meeting minutes are retained at the MN FEB office for three campaign periods, per regulations.

Recommendation 25: We concur with this recommendation. LFCC meetings are scheduled a year in advance bi-monthly. Procedures will be added to incorporate e-mail votes and documented in the meeting minutes following the vote.

Federation Dues Incompletely Described

Recommendation 26: We would agree with this recommendation; however the PCFO has not applied as a federation since 2013.

Recommendation 27: We concur with this recommendation. The LFCC has directed the PCFO to include in this item in the training provided to the LFCC charity review training for 2015.

Disposition of Campaign

Recommendation 28: We do not agree with this recommendation, and feel that the facts do not support the recommendation. We do not agree with a majority of the findings, as supported with attached documentation and explanation. The findings that we do agree with have been addressed. The competency of the Northern Lights CFC is evidenced in the successful

campaigns that have demonstrated leadership in innovative promotion and technological improvements.

Recommendation 29: We do not agree with this recommendation. Although the LFCC and the MN FEB both had significant turnover in 2011-2012; a new LFCC Chair and new FEB Director were appointed in 2012: the chair and current MN FEB Director and Assistant attended the last two training conferences. A majority of the findings in this report had been addressed and were operational for the 2013 campaign. We contend that the current LFCC board, which includes the Director and Assistant MN FEB Director are very involved in all levels of the Northern Lights Campaign.

Provided as part of the PCFO/LFCC Response:
LFCC Standard Meeting Agenda Template



Northern Lights
COMBINED FEDERAL CAMPAIGN
1619 Dayton Ave, Ste 323
St. Paul MN 55104

LFCC Meeting Agenda
STANDARD MEETING TEMPLATE

Deleted by OIG – Not Relevant to Final Report

1. Review Previous Meeting Minutes
2. New Business
 - a. Scheduled events
 - b. Campaign-related decisions
 - i. Applications review and decisions
 - ii. Materials for next campaign – theme, posters, booklets, special events, goal
 - iii. Solicitation of volunteers
 - iv. Review of Campaign progress
3. Ongoing Business
 - a. Review of line-itemized CFC Expenses to date, with receipts.
 - b. Review of PCFO work plan and written policies and procedures showing oversight of the campaign expenses
 - c. Compliance with procedural requirements for LFCC and PCFO.
 - d. Outstanding Check Report
4. Adjourn
5. Next Meeting Date:

Provided as part of the PCFO/LFCC Response:

Northern Lights CFC
Problem Pledge Resolution Matrix

Category/Problem Desc.	Resolution Steps	Person Responsible
MATH		
Designations less than total gift	1. Check for second card with missing information	Ofc Manager/verifier
	2. If no card is found, Per Regulation CFR 950.402, assign remainder to undesignated	Ofc Manager/verifier
Designations greater than total gift	1. Contact Agency Coordinator	CFC Manager
	2. If unable to get donor's intent, allocate total gift proportionately, per CFR 950.402	CFC Manager
Amount per pay period total does not equal total gift due to rounding,	1. Per Regulation CFR 950.402, assign a proportionate share to each designation using dollars per pay period	CFC Manager
DESIGNATION		
Designated organization not found in CFC Assistant	1. Verify that organization was approved using final approval list from OPM	CFC Manager
	2. If approved, enter in CFC Assistant	CFC Manager
	3. If not approved, contact agency coordinator to ascertain donor's intention.	CFC Manager
	4. If unable to get donor's intention after 2 attempts, per Regulation CFR 950.402, assign to undesignated.	CFC Manager
ILLEGIBLE		
Can't read donor name	1. Contact Agency Coordinator.	CFC Manager
	2. If unable to obtain identity enter gift with name "Donor Name Unknown".	CFC Manager
Can't read amounts.	1. Contact Agency Coordinator to ascertain donor's intention	CFC Manager
Can't read designations	1. Contact Agency Coordinator to ascertain donor's intention	CFC Manager
	2. If unable to contact the donor after 2 attempts, per Regulation CFR 950.402, assign to undesignated.	CFC Manager
Can't read acknowledgement information.	1. Contact Agency Coordinator to get information	CFC Manager
	2. If cannot contact donor, mark "Do Not Acknowledge"	CFC Manager
PAY PERIOD		
Donor selects the wrong pay period interval	1. Contact coordinator	CFC Manager
NEW PROBLEM		
No description available for problem	1. CFC MANAGER determines best resolution based on issue.	

CFC NEXUS ONLINE		
Donor makes duplicate pledge	1. Contact Agency Payroll contact and Agency Coordinator. Determine which pledge to keep (they are numbered) OR if donor meant to make two pledges.	CFC Manager
	2. If donor wants only one, delete pledge in CFC Nexus	CFC Manager
Donor requests pledge be cancelled	1. Inform Agency Payroll contact and Agency Coordinator (if they have not already been informed) to remove from agency's list.	CFC Manager
	2. Delete pledge in CFC Nexus	CFC Manager
Donor has trouble registering or making a pledge. Usually, donor contacts CFC Manager directly or through email.	1. Verify that donor is at Northern Lights CFC Nexus site (and not at the CFC Nexus demo site).	CFC Manager
	2. Open CFC Nexus Admin website and verify that employee is not blocked because of too many attempts.	CFC Manager
	3. If necessary, provide donor with new password to access.	CFC Manager
	4. Walk donor through process as outlined in CFC Nexus help guides.	CFC Manager
	5. If cannot resolve, contact Arkiom for assistance	
Employee Express Online		
Employee calls with problem related to EEX	1. Donors are directed to contact the EEX help desk.	



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