



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

Final Audit Report

Subject:

**AUDIT REPORT OF THE 2009 AND 2010
OVERSEAS
COMBINED FEDERAL CAMPAIGNS
ALEXANDRIA, VIRGINIA**

Report No. 3A-CF-00-12-046

Date: March 18, 2013

--CAUTION--

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AUDIT REPORT

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for Audits

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EXECUTIVE SUMMARY

AUDIT OF THE 2009 AND 2010 OVERSEAS COMBINED FEDERAL CAMPAIGNS ALEXANDRIA, VIRGINIA

Report No. 3A-CF-00-12-046

Date: March 18, 2013

The Office of the Inspector General has completed an audit of the 2009 and 2010 Overseas Combined Federal Campaigns (CFC). Global Impact, located in Alexandria, Virginia, served as the Principal Combined Fund Organization (PCFO) during both campaigns. Our main objective was to determine if the Overseas CFC was in compliance with Title 5, Code of Federal Regulations, Part 950 (5 CFR 950), including the responsibilities of both the PCFO and the Local Federal Coordinating Committee (LFCC). The audit identified nine instances of non-compliance with the regulations (5 CFR 950) governing the CFC and questions \$16,301.

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

AUDIT GUIDE REVIEW

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

The Independent Public Accountant utilized by the PCFO and LFCC to complete the Agreed-Upon Procedures for the 2009 campaign did not perform its review in accordance with the requirements of the Audit Guide.

BUDGET AND CAMPAIGN EXPENSES

- **Campaign Expenses** **\$16,301**

The PCFO charged the 2010 campaign \$16,301 in expenses that were either unallowable or attributable to another campaign. Additionally, we identified \$10,000 related to software licensing fees that could have been put to better use.

- **Interest Expense Allocation** **Procedural**

The PCFO allocated interest expenses improperly among multiple campaigns.

- **Banking and Credit Card Fees** **Procedural**

The PCFO did not adhere to its responsibility to conduct a campaign aimed at maximizing the charitable contributions donated by both federal employees and members of the United States Military serving overseas.

CAMPAIGN RECEIPTS AND DISBURSEMENTS

- **Pledge Form Errors Identified** **Procedural**

Our pledge form review identified 12 pledge forms with a combined total of 17 errors.

- **Donor Names Incorrectly Released** **Procedural**

The PCFO incorrectly released donor names to charities when no release of information was authorized by the donor.

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

Not all CFC bank accounts utilized by the PCFO maintained CFC funds in interest-bearing accounts as required by the regulations.

- **Un-Cashed Checks Procedures** **Procedural**

The PCFO's policies and procedures related to un-cashed checks did not include at least three documented follow-up attempts to reach each payee.

- **One-Time Disbursement Percentage Calculation** **Procedural**

The PCFO did not properly calculate the pledge loss percentage that was applied to agencies receiving one-time disbursements.

ELIGIBILITY

Our review of eligibility found that the charity list included all required information and that the members of the LFCC during the campaign were current federal employees.

FRAUD AND ABUSE

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

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I. INTRODUCTION AND BACKGROUND

INTRODUCTION

This report details the findings and conclusions resulting from our audit of the 2009 and 2010 Overseas Combined Federal Campaigns (CFC). The audit was performed by the Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as authorized by the Inspector General Act of 1978, as amended.

BACKGROUND

The CFC is the sole authorized fund-raising drive conducted in federal installations throughout the world. In 2010, it consisted of 209 separate local campaign organizations located throughout the United States, including Puerto Rico and the Virgin Islands, as well as overseas locations. The Office of the Combined Federal Campaign (OCFC) at OPM has the responsibility for management of the CFC. This includes publishing regulations, memoranda, and other forms of guidance to federal offices and private organizations to ensure that all campaign objectives are achieved.

Each CFC is conducted by a Local Federal Coordinating Committee (LFCC) and administered by a Principal Combined Fund Organization (PCFO). The LFCC is responsible for organizing the local CFC; determining the eligibility of local voluntary organizations; selecting and supervising the activities of the PCFO; encouraging federal agencies to appoint Loaned Executives to assist in the campaign; ensuring that employees are not coerced in any way in participating in the campaign; and acting upon any problems relating to a voluntary agency's noncompliance with the policies and procedures of the CFC. Loaned Executives are federal employees who are temporarily assigned to work directly on the CFC.

The primary goal of the PCFO is to administer an effective and efficient campaign in a fair and even-handed manner aimed at collecting the greatest amount of charitable contributions possible. Its responsibilities include training loaned executives, coordinators, employee keyworkers and volunteers; maintaining a detailed schedule of its actual CFC administrative expenses; preparing pledge forms and charity lists; distributing campaign receipts; submitting to an audit of its CFC operations by an Independent Certified Public Accountant (IPA) in accordance with generally accepted auditing standards; cooperating fully with the OIG audit staff during audits and evaluations; responding in a timely and appropriate manner to all inquiries from participating organizations, the LFCC, and the Director of OPM; and, consulting with federated groups on the operation of the local campaign.

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. The PCFO is also responsible for establishing and maintaining a system of internal controls.

There were no findings in our previous audit of the Overseas campaign (3A-CF-00-02-066, dated January 21, 2003), which covered the 1999 and 2000 campaigns.

The initial results of our audit were discussed with the PCFO and LFCC officials during an exit conference held on October 9, 2012. A draft report was provided to the PCFO and LFCC for review and comment on October 4, 2012. The PCFO and LFCC's responses to the draft report were considered in preparation of this final report and are included as Appendices.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The primary purpose of our audit was to determine if the Overseas CFC was in compliance with 5 CFR 950, including the activities of both the PCFO and the LFCC.

Our audit objective for the 2009 campaign was:

Audit Guide Review

- To determine if the IPA completed the Agreed-Upon Procedures (AUP) as outlined in the CFC Audit Guide.

Additionally, our specific audit objectives for the 2010 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 expenses charged to the campaign were actual, reasonable, allocated properly, approved by the LFCC, and did not exceed 110 percent of the approved budget.

Campaign Receipts and Disbursements

- To determine if the pledge form format was correct and if the pledge form report agrees with the actual pledge forms.
- To determine if incoming pledge monies were allocated to the proper campaign year and that 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 any non-federal employees or retirees were members of the LFCC.

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 2009 and 2010. Global Impact, located in Alexandria, Virginia, served as the PCFO during both campaigns. The audit fieldwork was conducted at our offices in Washington D.C. from July 24th through September 24th, 2012.

The Overseas CFC received campaign pledges, collected campaign receipts, and incurred campaign administrative expenses for the 2009 and 2010 campaigns as shown below.

Campaign Year	Total Pledges	Total Receipts	Administrative Expenses
2009	\$15,616,748	\$13,388,415	\$1,784,499
2010	\$13,851,054	\$11,409,200	\$1,733,613

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 distribution 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 2009 campaign (Audit Guide Review), we reviewed the CFC Audit Guide to verify that the IPA completed and documented the AUP steps.

In regard to our objectives concerning the 2010 campaign's budget and campaign expenses, we accomplished the following:

- Reviewed the PCFO's application to verify that it was complete.
- Reviewed a copy of the public notice to prospective PCFOs and the LFCC meeting minutes to verify that the PCFO was selected in a timely manner.
- Traced and reconciled amounts on the PCFO's Schedule of Actual Expenses to the PCFO's general ledger.
- Reviewed the PCFO's budgeted expenses, the LFCC's approval of the budget, and matched a sample of actual expenses to supporting documentation. We judgmentally

selected 130 campaign expense transactions for review (totaling \$895,469 from a universe of 1,185 transactions totaling \$1,733,613). Specifically, transactions were selected using the following methodology:

- From each salary account, we selected the largest single transaction and all other transactions with the same journal number;
 - From all other accounts we selected all transactions over \$4,000;
 - From accounts where no transaction was selected, we selected the largest transaction over \$250; and
 - We selected all transactions related to IPA audit fees and Letter of Credit Interest.
- Reviewed the LFCC meeting minutes and verified that the LFCC authorized the PCFO's reimbursement of campaign expenses.
 - Compared the budgeted expenses to actual expenses and determined if actual expenses exceeded 110 percent of the approved budget.

To determine if the 2010 campaign's receipts and disbursements were handled in accordance with CFC regulations, we reviewed the following:

- A judgmental sample of 105 pledge forms totaling \$572,013 (out of a universe of 82,490 pledge forms with total pledges of \$13,851,054) from the PCFO's 2010 campaign pledge form detail schedule and compared the pledge information from the schedule to the actual pledge forms. Specifically, we judgmentally selected the top 75 paper pledge forms by total amount pledged and the top 25 electronic pledge forms by total amount pledged. Additionally, we judgmentally selected the top five pledge forms (by total amount pledged) whose donation was marked "undesignated".
- Cancelled distribution checks to verify that the appropriate amount was distributed in a timely manner.
- One-time disbursements to verify that the PCFO properly calculated pledge loss and disbursed the funds in accordance with the ceiling amount established by the LFCC.
- The PCFO's most recent listing of outstanding checks to verify that the PCFO was following its policy for such checks.
- The pledge notification letters to verify that the PCFO notified the CFC agencies of the designated and undesignated amounts due them by the date required in the regulations.
- The donor notification letters sent by the PCFO to organizations to verify the letters properly notify the organization of the donors who wished to be recognized.
- 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 it properly accounted for and distributed funds.
- The PCFO's cutoff procedures and bank statements to verify that funds were allocated to the appropriate campaign year.

To determine if the LFCC and PCFO were in compliance with CFC regulations regarding eligibility for the 2010 campaign, we reviewed the following:

- Campaign charity lists to determine if they contained all required information.
- The LFCC member listings to verify that all members were active federal employees.

Finally, to determine if the policies and procedures related to the detection and prevention of fraud and abuse were adequate we reviewed 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 PCFO and LFCC to complete the AUPs for the 2009 campaign did not perform 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 Part 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 one area where the IPA did not comply with the requirements of the Audit Guide.

Specifically, "Receipt and Disbursement of Funds" Step Nine required the IPA to report as a finding all instances where the PCFO's un-cashed check policies and procedures did not include at least three documented follow-up attempts to reach each payee. Our review of the Accounting Procedures Manual maintained within the IPA's working papers determined that the procedures reviewed by the IPA did not include the three documented follow-up attempts. However, the IPA did not report this as a finding.

As a result of the IPA not completing the AUPs in accordance with the requirements of the Audit Guide, the OCFC, LFCC and PCFO were not notified of this issue and corrective actions were not taken.

Recommendation 1

We recommend that the OCFC and the LFCC ensure that the IPA utilized to complete the Audit Guide's AUPs fully understands the CFC and its related regulations so that it may complete the steps correctly and completely.

LFCC Response:

The LFCC agrees with this finding and will ensure that the PCFO's procedures are amended to specifically mention that at least three follow-up attempts must be made. The LFCC will also ensure that the IPA fully understands the Audit Guide and its related regulations so that they complete the audit steps correctly, and the LFCC will meet with the designated IPA annually before the commencement of the audit to ensure that the minimum three follow-up attempts have been made.

B. BUDGET AND CAMPAIGN EXPENSES

1. Campaign Expenses \$16,301

The PCFO charged the 2010 campaign \$16,301 in expenses that were unallowable, unreasonable or attributable to another campaign. Additionally, we identified \$10,000 related to software licensing fees that could have been put to better use.

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

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

Finally, 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 2010 campaign expenses from the funds received for the 2010 campaign.

We reviewed a sample of expenses from the 2010 campaign to determine if the amounts charged to the campaign were CFC-related expenses, actual costs with supporting documentation, and charged to the correct campaign. Our review identified \$16,301 in expenses that were unallowable or charged to the wrong campaign. Specifically we identified:

- \$11,426 in unallowable expenses to the 2010 campaign.
 - \$9,339 in unallowable airfare. This relates to two travel itineraries that were booked at first or business class fares. Using the Federal Travel Regulations (FTR) as a guide, the only time first or business class airfare is permitted is for travel lasting over 14 hours. Therefore, we consider all such airfare charged to the campaign for segments under 14 hours to be unallowable. In determining the amount to question, we did a comparison of airfares between coach and first class and found the coach airfares to be 31 percent of the cost of first class airfares. Therefore, to be conservative and allow for timing and other adjustments, we have questioned only 50 percent of the cost of the first class and business airfares.
 - \$1,200 in unallowable charges which were not supported by actual invoices. This amount was related to a \$300 monthly stipend (for four months) paid to an employee working from home in Kansas. In addition to not providing supporting documentation for the charges, the PCFO also did not explain how this additional charge to the campaign was more beneficial to the campaign than employing someone in the local area.

- \$887 in unallowable meals, personal expenses, alcohol, and related tips that were charged to the 2010 campaign.
- \$4,875 in expenses charged to the wrong campaign. The PCFO charged the 2010 campaign for the 2011 campaign video. We will not ask this expense to be reimbursed, since this is a valid CFC expense and the 2010 campaign is closed.

As the amounts in question (\$11,426) are less than one percent of the total receipts of the 2010 campaign, we are requesting the PCFO to make reimbursement to the campaign currently open.

We also identified \$10,000 in software licensing fees for which we determined that, although a legitimate campaign expense, the amount spent was excessive, could appear to be a conflict of interest, and could have been spent more effectively so that the campaign dollars available to charities would be maximized. Specifically, the PCFO charged licensing fees to the campaign for a software product that it created and owns and which it claims “decreases the cost to the campaign by decreasing the time it takes to perform campaign functions and to manage the campaign as a whole, increasing funding to charities.”

We feel this cost is excessive because the only “actual” cost [see 5 CFR 950.106(a)] to the campaign for the software package would be its installation and maintenance since the product is already owned by the PCFO. There is an apparent conflict of interest because charging the CFC for its own product makes it appear as if the PCFO is attempting to profit from the CFC, which it pledged to administer “fairly and equitably” [5 CFR 950,150(c)(2)(i)]. The funds could have been spent more effectively by limiting the costs charged to the CFC to either only those “actual” costs for installing and maintaining the software or by limiting it to the cost of another comparable software product which is used by many other CFCs (available for \$1,250).

As a result of charging the CFC for unallowable charges and charging expenses to the wrong campaign, \$16,301 was not disbursed to the charities of the 2010 campaign. Additionally, as a result of charging the CFC for software licensing fees to use the PCFO’s own product, \$10,000 was paid to the PCFO rather than charities of the CFC.

Recommendation 2

We recommend that the OCFC and LFCC direct the PCFO to distribute \$11,426¹ in unallowable expenses as undesignated funds to the charities participating in the 2011 campaign.

LFCC and PCFO Response:

The PCFO partially agrees with this recommendation and agrees that \$887 in various miscellaneous expenses should be refunded. The PCFO disagrees with the remaining

¹ \$16,301 less \$4,875 in expenses related to the 2011 campaign, but charged to the 2010 campaign.

amount. Additionally, the LFCC stated that it will ensure that any disallowed amounts are distributed to charities that participated in the 2011 campaign.

OIG Comments:

The OIG accepts the PCFO's refund of the \$887 and requests that the PCFO provide documentation to the OCFC to demonstrate that the funds have been distributed.

PCFO Response:

Unallowable business class tickets on international flights.

The PCFO disagrees with this portion of the finding. The PCFO states that the FTR applies to government employees and the PCFO has never been informed that it applies to them. Reimbursement to the campaign for these expenses would be retroactively imposing the FTR regulation without notice.

Additionally, the PCFO states that it doesn't agree with the calculations used to determine the amount questioned because the OIG assumed the use of non-refundable tickets. Other meetings often arise when on command visits, so the use of refundable rather than non-refundable tickets has proven more cost effective over the years due to the frequent last minute changes.

OIG Comments:

In our finding we clearly stated that the FTR was being used as a guide, mainly because extensive travel is not a necessity for the domestic CFCs. We understand that the FTR is not applicable to non-government employees. However, due to the fact that the monies being donated to the Overseas CFC are those of federal government employees, we feel the application of the FTR is appropriate to determine the reasonableness of the costs charged by the PCFO. We are not retroactively applying the FTR to the PCFO in this case. We are retroactively auditing (as all audits must be) the PCFO and applying a reasonableness test to determine the allowability of the costs charged.

The PCFO states that the calculations used to determine the amounts questioned assumed the use of non-refundable tickets. This is not the case and was not stated in the finding. We used 50 percent of the total cost to conservatively question the amount determined to be unallowable (rather than question 69 percent of the total cost, as our estimate supported).

To be clear, we are not questioning Global Impact's internal policies and procedures in regards to first class or business class travel. What we are stating is that if travel segments are below 14 hours and the travel is done at a first or business class fare, then the PCFO should document the coach fare for the same flight segments and only charge the CFC for those costs.

PCFO Response:

Monthly stipend to an employee working from a home office

The PCFO disagrees with this portion of the finding. The PCFO, using its corporate personnel policies as a guide, has allowed (in the best interest of the campaign) an employee who moved, due to their spouse being transferred, to work permanently from their home. The PCFO's corporate personnel policy allows a monthly stipend to be paid to "cover work costs such as office supplies, phone line, internet access and furniture." Additionally, the PCFO states that "As a Global Impact employee, she was thus entitled to the stipend."

OIG Comments:

In its response, the PCFO approaches this issue using its corporate policies as a guide. We understand that the PCFO has its own internal policies and procedures. However, as PCFO, Global Impact is held to the federal regulations which govern the CFC. These federal regulations have precedence over its own internal policies. In all cases where the PCFO is attempting to interpret the federal regulations, it should not do so. Rather, it should reach out to the OCFC, which is charged with the duty of interpreting those regulations.

The PCFO's decision to maintain the employee is not at question. The question is the costs related to maintaining this employee. Therefore, the PCFO must understand that the federal regulations regarding expenses charged to the CFC are rather strict and state that the expenses reimbursed to it should be the "actual costs of administering the local campaign." A flat rate \$300 per month stipend, in addition to a salary, for general office expenses does not constitute an "actual cost" to the campaign, but rather a generous guess by the PCFO to estimate the employees possible expenses. To adhere to the regulation, the PCFO should require the employee to provide receipts and then only those costs that benefit the CFC should be charged to it.

Additionally, the \$300 per month seems excessive considering the fact that today most individuals have their own home office with furniture, a phone line and internet access. Unless this individual has a separate office, with segregated furniture, a separate phone line, and internet access, then only those specific and actual costs should be charged to the CFC (if the PCFO would like to continue its internal policy and pay the employee the difference from corporate monies that is fine). If not, then only a documented pro-rated portion of the employee's costs would be chargeable to the CFC. If the employee does maintain this office separately from their personal office, then anything purchased belongs to the CFC and should be returned upon the employee's separation from the PCFO.

PCFO Response:

Software licensing fees

The PCFO strongly disagrees that the \$10,000 spent on software licensing fees was excessive. It states that the software fees were presented to the LFCC in its proposals to serve as PCFO and in its annual budgets which were approved by the LFCC.

Additionally, it is the opinion of the PCFO that its software package provides it with additional capabilities that are necessary due to the large size and scope of the Overseas campaign. The PCFO feels that without the use of its software that it would be necessary to add additional staff which would cost the campaign much more than the \$10,000 licensing fee.

OIG Comments:

In its response, the PCFO makes a case for its product based on its usefulness for the campaign and the fact that the costs were submitted to and approved by the LFCC. These facts are not in dispute by the OIG. The issue at hand is the fact that the software licensing fees charged to the campaign were for a product wholly owned, created, and maintained by the PCFO and that charging the fees to the campaign puts the PCFO at odds with 5 CFR 950.150(c)(2)(i), which requires it to administer the campaign fairly and equitably. This assertion was not addressed by the PCFO in its response.

As such, the OIG maintains that charging the campaign for software owned by the PCFO is a conflict of interest, even if it was approved by the LFCC.

Recommendation 3

We recommend that the OCFC provide guidance to all LFCCs and PCFOs as to what should be considered unallowable campaign expenses including, but not limited to, those items questioned above.

LFCC Response:

The LFCC agrees with this recommendation and the LFCC and PCFO will await further guidance from OCFC.

Recommendation 4

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

LFCC Response:

The LFCC agrees with this recommendation and has instructed the PCFO to follow CFC regulations and OPM guidance when determining in which campaign period an expense belongs.

Recommendation 5

We recommend that the LFCC ensure that the PCFO is only reimbursed for its actual costs related to the administration of the campaign pursuant to 5 CFR 950.106.

LFCC Response:

The LFCC agrees with this recommendation and will review transaction records and other documentation related to the administration of the campaign awards to ensure the PCFO is only reimbursed for its actual costs related to the administration of the campaign and pursuant to 5 CFR 950.106.

2. Interest Expense Allocation

Procedural

The PCFO allocated interest expenses improperly among multiple campaigns.

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

Additionally, 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 2010 campaign expenses from the funds received for the 2010 campaign.

During our review of expenses, we reviewed interest expenses for the PCFO's line of credit (LOC). We noticed that the interest for the LOC was only charged through March 2011. The last check the PCFO received for reimbursement of their expenses for the 2010 campaign was in September 2011. Therefore, we expected to see interest charged through September 2011. We inquired of the PCFO as to why this was not the case, and the PCFO stated that they have one LOC that is used for all campaigns and that it would be too prohibitive to calculate the interest attributable to each campaign so it is treated as a period cost.

The PCFO uses accrual accounting and sets up each campaign for accounting purposes on a 12 month period, from April 1st of the campaign year to March 31st of the following year. For the 2010 campaign that would be from April 1, 2010 through March 31, 2011. On March 31st of the following year, it accrues the remaining estimated expenses for that campaign and adjusts the accruals as actual expenses are incurred. Therefore, all interest charges after March 31, 2011, including the interest

accrued on 2010 campaign monies not paid off until September 2011, were expensed to the 2011 campaign.

By not properly allocating interest expense to the appropriate campaigns, each campaign is not being charged the actual costs of administering the campaign and expenses are not being recovered from the correct campaign, which is required by the regulations.

Recommendation 6

We recommend that the OCFC and LFCC direct the PCFO to either properly allocate interest expense to the appropriate campaigns in accordance with the regulations, or to have a separate LOC for each campaign.

LFCC and PCFO Response:

The PCFO agrees with the recommendation theoretically. However, due to complexities involved with its LOC it feels that additional and unnecessary administrative cost would be incurred by the CFC to implement the recommendation.

The PCFO maintains one LOC for the CFC and that LOC is linked to the CFC operating account so that the operating account operates like a zero balance account. When items are presented for payment to the operating account, regardless of campaign, an automatic draw on the line of credit is made to pay the item. When campaign expenditures are authorized for reimbursement by the LFCC the LOC balance is paid down.

Typically, at the June meeting the LFCC will authorize reimbursement for all final campaign expenses and at that time final payment will be made to the LOC. The historical practice of the PCFO has been to account for interest expense as a period cost, so that in August all interest expense is charged to the current campaign even though some of the expense incurred may be related to the prior campaign. It is the PCFO's opinion that because it has applied this policy consistently for many years, the amount of interest actually charged to any one campaign would be very close to the actual interest expense if precise accounting were done.

The PCFO feels that obtaining an LOC for each campaign year would be difficult. Campaign collections may not be used as collateral and despite the PCFO's strong financial health and ability to pay an LOC on its own, most banks would be unwilling to set up multiple LOCs. The PCFO also believes that the cost to set up an additional LOC and the time spent administering them would be an unnecessary increase in cost to the campaign.

The LFCC and PCFO request guidance from OCFC on how it would like interest expense accounted for. Additionally, the PCFO requested that the OCFC provide

guidance to all PCFOs in the form of a simple methodology so that additional administrative costs could be minimized.

The LFCC states that “The LFCC and PCFO are open to receiving and implementing cost-effective guidance from OCFC on how to bring current practices into alignment with the requirements in laws and regulations related to allocating the interest expenses.”

OIG Comments:

The OIG understands the complexities involved in accounting for interest expense which involves one LOC that covers multiple campaign periods. However, we do maintain that not all interest expenses are being allocated to the correct campaign periods as is required by 5 CFR 950.106(a) and 5 CFR 950.106(b). The OIG does not feel that it is interpreting the regulations incorrectly, as they are very clear. Operating a separate LOC for each campaign is only one suggested solution to properly allocating interest expenses and is not a requirement. The PCFO may use any method that is compliant with regulations to properly allocate interest expenses.

3. Banking and Credit Card Fees

Procedural

The PCFO did not adhere to its responsibility to conduct a campaign aimed at maximizing the charitable contributions donated by both federal employees and members of the military serving overseas.

5 CFR 950.105(b) states that the PCFO’s “primary goal ... is to conduct an effective and efficient campaign in a fair and evenhanded manner aimed at collecting the greatest amount of charitable contributions possible.”

During our audit of CFC receipts and expenses, we determined that the PCFO’s method of accounting for CFC donations received through credit card payments and for banking fees was not effective and efficient and reduced the amount of donated funds available to charities. Specifically, we found the following process in use at the PCFO:

- Credit card donations were received in one of two ways: (1) the donated amount was received net of the fee charged by the credit card vendor (i.e., a \$100 donation assessed a 5 percent fee was received into the bank account as \$95); or (2) the donated amount was received in full and a bank fee was charged by the credit card vendor and was deducted directly from the bank account (i.e., in accordance with the previous illustration, the \$100 was received in full and the credit card vendor’s fee of \$5 was offset as a debit to the bank account);
- The PCFO then drew from its LOC account the amounts offset in examples (1) and (2) above (borrowing the money) and deposited the monies into the CFC campaign account to make the donations appear to be received at the donor’s pledged amount and distributed that amount to the charities;

- In addition, the PCFO also drew from its LOC account all other banking fees offset during the campaign (again, borrowing the money) so that the amounts available for disbursement were not net of bank fees or other charges; and
- The PCFO then reimbursed itself for all CFC expenses. This included those monies borrowed for credit card and banking fees plus the interest earned on them. This step paid the credit card and banking fees a second time (the fees were originally paid as offsets on the bank statements).

Discussion with the PCFO determined that this process was (and is) in place so that it would be able to disburse the “gross receipts” as is required by the regulations. When we clarified that the regulations do not state anything regarding the disbursement of “gross receipts”, it stated that the regulation at 5 CFR 950.106(a) requires it to recover its expenses from the “gross receipts” of the campaign. It also referred to 5 CFR 950.901(i)(2), which requires it to “distribute all CFC receipts.” The PCFO considered this to infer “gross receipts.”

The PCFO’s interpretation of the regulations is incorrect. Its determination that the two regulations [5 CFR 950.106(a) and 5 CFR 950.901(i)(2)] require it to disburse “gross receipts” to charities of the campaign is wrong as no PCFO distributes “gross receipts.” “Gross receipts” simply defined would be total receipts exclusive of deductions. All distributions made by PCFO’s are automatically reduced by its expenses. As such, if the PCFO recovers its expenses from the gross receipts of the campaign [see 5 CFR 950.106(a)], it then cannot disburse gross receipts to the charities. In the end, the PCFO, instead of simply disbursing the amounts received net of banking and credit card fees, added a level of unnecessary accounting complexity and reduced the amount available to be disbursed to charities by the amount of interest paid on the monies borrowed to offset the fees.

Additionally, the OCFC provides all PCFOs with an electronic schedule of Campaign Receipts and Disbursements each year to be completed for its annual IPA audit. In this schedule, the OCFC requires the PCFO to report, separately from its reimbursable administrative expenses, its banking fees. As such the OCFC is trying to ascertain the banking fees incurred by PCFOs. In our discussion with the PCFO, it stated that it “changed the report” and reported all banking fees as administrative expenses. By not reporting banking fees and other reimbursable administrative expenses separately, the PCFO is not following the guidance and direction of the OCFC.

Recommendation 7

We recommend that the OCFC and LFCC direct the PCFO to discontinue its current process of truing up CFC receipts for banking and credit card fees and to begin the disbursement of CFC receipts net of banking fees and credit card fees without affecting the letter of credit.

LFCC and PCFO Response:

The LFCC and PCFO disagree with the recommendation because it is accounting for credit card (and other banking fees) in full compliance with Generally Accepted Accounting Principles (GAAP) and it feels that the recommendation is contrary to GAAP and stated that the “specific issue of concern to the OIG is the PCFO’s accounting policies and practices concerning credit card fees.”

The PCFO stated that two regulations support its position: 5 CFR 950.105(d)(8) and 5 CFR 950.106(a). Specifically, the PCFO points out that 5 CFR 950.105(d)(8) requires that it maintain the CFC financial records and bank accounts “in accordance with generally accepted accounting principles.” Additionally, 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.”

The PCFO stated that it records banking and credit card fees as expenses, and thus records the full amount paid by donors as revenue. Additionally, it stated that its procedures ensure that ultimately, the full amount paid by the donor is reflected in the campaign bank account, regardless of whether fees are netted or not, and the fees incurred, whether embedded or not, are charged to the campaign operating account (line of credit). It feels that disbursing funds net of banking and credit card fees would understate expenses and collections and overstate shrinkage.

The PCFO feels that the explicit reference to gross receipts in 5 CFR 950.106(a) is a strong indicator that the OCFC expects gross receipts to be used when accounting for donations and that its current procedure allows the LFCC to approve all expenses incurred by the campaign. It further stated that if the banking and credit card fees were not recorded as an expense, but netted against the disbursements, that the LFCC would never see them or approve them.

Lastly, the PCFO stated that the total interest expense incurred by the 2010 campaign as a result of its procedures for banking and credit card fees was approximately \$250 and that it felt that this was an extremely small price to pay for clean audit trails.

OIG Comments:

The PCFO states in its response that the “specific issue of concern to the OIG is the PCFO’s accounting policies and practices concerning credit card fees.” This is incorrect. The finding is directed at both credit card and banking fees. Per our discussions with the PCFO, it handles both banking fees and credit card fees in the same manner. The issue arose in our review of the credit card fees.

That being said, we disagree with the PCFO’s response. The PCFO needs to conform its accounting policies and procedures to adhere to the regulations and to GAAP, and not adhere to GAAP at the expense of the regulations. The regulations require the PCFO to maximize the charitable contributions donated. However, following GAAP

should not cost the CFC and its charities money, no matter how small that amount is. We feel that there should be a solution that will allow the PCFO to follow both the regulations and GAAP that will not reduce the funds available for distribution, beyond the amount of the banking and credit card fees, and we urge the OCFC to work with the PCFO to ensure this does not occur in the future.

Recommendation 8

We recommend that the OCFC and LFCC direct the PCFO to report its CFC receipts and disbursements using the schedule format provided by the OCFC.

PCFO Response:

The PCFO disagrees with this recommendation because it believes that it is already preparing the OCFC Campaign Cash Receipts and Disbursements Schedule correctly as it has been accepted without request for adjustment by the OCFC since credit card donations were started.

OIG Comments:

We disagree with the PCFO. The PCFO may be correct in its statement that the OCFC has not requested corrections to the altered schedules that it has provided in the past. However, this lack of notification does not indicate that the OCFC was either aware of the change or accepted the change.

Recommendation 9

We recommend that the OCFC issue guidance to all PCFOs regarding the handling of non-reimbursable expenses, such as banking and credit card fees.

C. CAMPAIGN RECEIPTS AND DISBURSEMENTS

1. Pledge Form Errors Identified

Procedural

Our pledge form review identified 12 pledge forms with a combined total of 17 errors.²

We reviewed a sample of 105 pledge forms to determine whether they were entered into the PCFO's pledge database correctly. Specifically, we compared the actual pledge form to the pledge form report to determine if the following items were entered correctly: donor name, each charity code and amount(s) donated, total amount donated, and the donor's choice to release personally identifiable information. Additionally, we reviewed the pledge forms to determine if the donor signed the payroll deduction authorization. Our review identified the following errors:

² Several of the pledge forms questioned had multiple errors identified.

- Six pledge forms altered by the PCFO. On each of the six pledge forms the donor entered the amount to be deducted from their pay into the annual amount boxes designating the total amount due to the charity. The alteration occurred when the PCFO multiplied these amounts by the number of pay periods in a year so that the amounts pledged to the charities equaled the total gift pledged by the donor.

Upon inquiry the PCFO stated that it “must honor the total amount on the pledge card and according to regulation 950.402(d), must make a proportionate adjustment to match the pledge. In most of the cases, the donors place the per pay period amount in the designations that if multiplied out match the pledge. If designations were entered correctly and do not match to (the) pledge, then the variance is to be put to undesignated.”

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

Review of the regulation and the PCFO’s response to the errors identified shows that the altered pledge forms occurred due to misinterpretation of this regulation. Based on the clear intent of the regulation, the only time the PCFO may make a proportionate adjustment to a pledge form is when the individual designations are greater than the total amount pledged. This was not the case for any of the six pledge forms identified as errors.

As a result of altering the pledge forms, the PCFO is not adhering to the most basic of its responsibilities [5 CFR 950.105(d)(1)]: “honoring employee designations.”

- Two pledge forms had an incorrect charity code recorded by the PCFO. We identified two pledge forms where the designation code reported by the PCFO did not match the charity code chosen by the donor.

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

The PCFO indicated that these were accidental errors and that the “processor makes (its) best effort to honor the charity code presented on the pledge card and makes educated decisions on charity codes in order to honor the pledge, if (the) code cannot be determined in good faith, then undesignated is applied.”

We acknowledge that human errors are unavoidable in any situation. However, if the PCFO expanded the responsibilities of its keyworkers to include a review of pledge forms for basic legibility, these types of errors could be reduced.

As a result of data entry errors, the PCFO did not honor the donor's designations in all cases.

- One pledge form where the donor entered more than five designations. We identified one pledge form where the donor entered seven designations rather than using an additional pledge form.

The PCFO stated that it “must honor the donor’s wishes when entering in charity designations.” Additionally, it stated that normal “protocol is to place additional charities on a separate pledge form.” However, in this case the donor “submitted one form and best efforts were made to honor the designations.” If this were “a local campaign, and a correction was feasible and easily attainable, the card would have been sent back. However, all CFC-Overseas donors are stationed outside of the US, and the routine return of documentation is not (a) realistic solution.” The PCFO’s response is understandable based on the logistics of the overseas campaign and its responsibilities to honor donor designations. However, the CFC annual charity list (brochure) states that if a donor needs space for additional designations that they may complete an additional pledge form. It is therefore the PCFO’s responsibility to ensure that its keyworkers, who are located in the overseas locations, review the pledge forms before they are forwarded to the PCFO to ensure that only five pledges are included on each paper pledge form.

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

- Three pledge forms where the “Payroll Deduction Authorization” was not signed by the donor. On each of the three pledge forms the donor chose to make donations via payroll deduction. However, the donor did not sign the payroll deduction authorization.

The PCFO stated that it makes every effort to have the donor sign the pledge form at the time it is submitted. It also stated that with donors located all over the world, there is often a time delay for the processor to receive the pledge forms and that it’s not practical to return unsigned pledge forms to the donor for signature. Additionally, the PCFO stated that the donor’s signature on the pledge form is “not a definitive requirement” and that the authorization “is achieved by selecting allotment type” on the pledge form.

5 CFR 950.901(c) states that payroll allotments will be totally voluntary and will be based upon the contributor’s individual authorization. Additionally, 5 CFR 950.901(c)(1) states that the CFC Pledge Form “is the only form for authorization of the CFC payroll allotment” Lastly, the CFC Pledge Form includes a signature space in which the donor pledges that they “authorize any agency of the United States Government by which I may be employed during 2011 to deduct the

amount(s) shown from my pay each pay period during the calendar year 2011....”
The regulations and pledge form authorization taken in conjunction make it clear that if a donor does not sign the payroll deduction authorization that the donor’s payroll office should not acknowledge the payroll deduction.

Based on the clear language of the pledge form authorization and the regulations, it appears as if the PCFO does not understand the importance of the authorization signature and, as a result, it runs the risk of overstating its pledges.

- Two duplicate pledge forms. We identified two pledge forms that were duplicated by the PCFO in its pledge form database.

The PCFO stated that the Overseas CFC provides many logistical issues with pledge forms due to its expansiveness and that occasionally pledge forms are submitted twice due to these logistical issues. It did state that its contractor assigned to process the pledge forms has put procedures in place to control duplicates in the future.

As a result of the duplicate pledge forms, the PCFO overstated the total pledges for the 2010 campaign.

- One pledge form was missing a page. We identified one donor who used two pledge forms to record more than five designations. However, only one of the two pledge forms was provided to us for review. Specifically, the PCFO recorded a total of seven designations for this donor, but the pledge form provided only showed two designated charity codes.

The PCFO stated that this pledge form was part of a program called “Print and Submit” which gives the donors the option to both complete the pledge form electronically and manually. In this program, the PCFO stated that the “paper form is the official document.” However, the PCFO stated that “In this case the first page could not be located, but the designations were confirmed from the electronic file submission of the donor.” Therefore, the PCFO relied upon an unofficial electronic record and not an official document for the donor’s designations.

As a result of relying upon unofficial records of donor designations, the PCFO reported unverifiable designations and may have misrepresented the donor’s designations.

- Two pledge forms where donor information was released incorrectly. We identified two pledge forms where the PCFO incorrectly released the donor’s name when the donor did not choose to have any information released.

A similar issue was identified and questioned separately in the “Donor Names Incorrectly Released” finding below. As a result, we will not issue a recommendation related to these claims in this finding.

Recommendation 10

We recommend that the OCFC direct the PCFO to put procedures in place to ensure that, in the case where a donor's total gift exceeds the total of the individual designations, it does not increase individual designations to match the total gift amount.

LFCC and PCFO Response:

The LFCC and PCFO disagree with this recommendation. The LFCC indicates that it has discussed this recommendation with the PCFO and it believes that based on current guidance the PCFO is allowed to correct obvious errors. The LFCC "believes additional detailed guidance is needed from the OCFC so that we can continue to respect and carry out the wishes of the donor while at the same time following the spirit and intent of the audit guidelines. As stated earlier, the unique nature of the Overseas campaign complicates discrepancy resolution in a timely manner."

OIG Comments:

5 CFR 950.402(d) clearly states how to handle both instances of when the total amount pledged does not equal the total of the designations, and the disagreement to this recommendation by the PCFO and LFCC indicates a lack of understanding of the intent of the regulation. The regulation, in short, states that under no circumstance is the PCFO allowed to change the designated amount when the total amounts add up to less than the total amount pledged. The unique nature of the Overseas CFC in no way provides the PCFO or LFCC with any latitude or discretion when it comes to the regulations governing the CFC.

The LFCC and PCFO stating that "they believe that based on current guidance the PCFO is allowed to correct obvious errors" is clearly against the regulation and shows their lack of understanding of it. The regulation is written to ensure that the PCFO does not think for the donor. Therefore, the PCFO is never to assume what the donor intended, even if it thinks the error to be "obvious."

In cases where the PCFO is attempting to interpret the federal regulations or other OCFC guidance, it should not do so. Rather, it should reach out to the OCFC, which is charged with the duty of interpreting those regulations.

Recommendation 11

We recommend that the OCFC direct the PCFO to train its keyworkers in the field to review all pledge forms to ensure that they are completed properly by the donor. Specifically, the keyworkers should ensure that the paper pledge forms are legible, only include a maximum of five designations per form, that the payroll deduction authorization is signed, and that the pledge forms are returned to the donor for corrections before the pledge form is forwarded to the PCFO.

LFCC and PCFO Response:

The LFCC and the PCFO agree that all keyworkers that work on the campaign should be thoroughly trained. The LFCC also requests guidance from the OCFC on specific issues raised by the OIG. The LFCC and the PCFO believe that placing seven charities on one pledge form does not violate audit guidelines and should not invalidate the pledge, even though it conflicts with instructions on the form.

The LFCC and PCFO also believe that lack of a signature on the audit copy of a pledge form should not invalidate the pledge. The signature requirement to authorize payroll deduction only applies to the copy submitted to the payroll department. Additionally, in an effort to protect their personal information, sometimes employees will sign the payroll copy, but block their signature on the PCFO's audit copy. Campaign workers are trained that payroll deductions cannot be processed without a signature on the payroll copy.

OIG Comments:

We accept that the LFCC and PCFO will work to improve the training of keyworkers and that if trained properly to identify and correct the issues identified in the finding that many of the problems should be alleviated in the future.

However, the PCFO's and LFCC's continued contention regarding pledge forms with more than five pledges and those without donors signing the payroll deduction authorization is of concern. Pledge forms with more than five designations clearly violate the instructions included in the CFC charity list each year. It should be noted that those instructions are provided each year to the PCFO by the OCFC.

In the case of pledge cards without the donor's authorization signature, the argument posed by the PCFO and LFCC appears to be in conflict. They clearly state that the signature is a requirement for the form submitted to the payroll office in order to authorize the deduction. Then, on the other hand, they are not concerned if the copy provided to the PCFO (which the signature should be transferred through to) for pledge processing has no signature. We do accept that some donors, for whatever reason, may block their signature from other copies of the pledge form. However, the PCFO and LFCC blindly accepting a pledge form requiring a payroll deduction without a signature authorizing the deductions with no concern to rectify the situation makes it seem as if the main concern is to boost pledges.

Recommendation 12

We recommend that the OCFC ensure that the PCFO has implemented procedures so that duplicate pledge forms are not recorded in its pledge database.

LFCC and PCFO Response:

The LFCC and PCFO agree with this recommendation and the PCFO has been asked to provide the LFCC and OCFC with an update on the procedures that have been put in place for the Fall 2012 campaign to reduce the chance of duplicate pledge processing.

Recommendation 13

We recommend that the OCFC and LFCC direct the PCFO to record all designations that cannot be supported by official documentation as undesignated in the future.

LFCC and PCFO Response:

The PCFO agrees with the recommendation and will record all designations that cannot be supported by official documentation as undesignated funds. The LFCC will verify that this procedure has been followed in its 2012 compliance audit.

2. Donor Names Incorrectly Released

Procedural

The PCFO incorrectly released donor names to charities when no release of information was authorized by the donor.

5 CFR 950.601(c) states that it is the PCFO's responsibility to forward contributor information for those who have indicated that they wish this information released.

We reviewed an initial sample of five agency donor lists to determine if the donor lists contained a list of donors who requested their information to be released, if the information included Social Security Numbers, if information was released to a federation's member agencies and not just the federation, and if the lists were sent by the date set in the CFC Calendar of Events. Our review of this initial sample found that the PCFO incorrectly released the name of one donor who did not choose to have any information released to the charities according to the actual pledge form.

Our pledge form review also identified two forms (including the one mentioned above) where the PCFO's pledge form database indicated that the donor chose to release their email address when there was no indication of such on the pledge form. As a result, we judgmentally selected an additional 25 agencies' donor lists (30 in total) for review to determine if any other donors had their names released without any other information (i.e., pledge amount, home address, and/or email address) being released. In total, we identified 35 instances where a donor's name was released to charities without any of the other requisite information permitted for release (pledge amount, home address, and/or email address). Discussion with the PCFO indicated that the release of this information was due to processor error during the data entry of the pledge forms.

As a result of releasing donor names without their express authorization, the PCFO ran the risk of the charities making attempts to contact those individuals without their consent.

Recommendation 14

We recommend that the OCFC and LFCC direct the PCFO to institute policies and procedures to ensure that release of donor information is properly entered into its pledge form database.

LFCC and PCFO Response:

The LFCC and PCFO agree with this recommendation. The LFCC has instructed the PCFO to implement policies and procedures to ensure the proper data entry of donor release information. The LFCC will verify that the PCFO has followed this procedure in the 2012 compliance audit.

Recommendation 15

We recommend that the OCFC and LFCC direct the PCFO to institute system enhancements to ensure that a donor's name is only released to charities when the home address, email address or amount fields are populated in the database.

PCFO Response:

The LFCC and PCFO agree with this recommendation. The LFCC has instructed the PCFO to implement policies and procedures to ensure a donor's name is only released when it accompanies a home address, email address or an amount, except in any instance where the donor requests only their name be released, in accordance with regulations. The LFCC will verify that the PCFO has followed this procedure in the 2012 compliance audit.

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

Not all CFC bank accounts utilized by the PCFO maintained CFC funds in interest-bearing accounts as required by the regulations.

5 CFR 950.105(d)(8) states that the PCFO must keep CFC "interest-bearing accounts separate from the PCFO's" bank accounts. As such, it is implicit that the PCFO must keep CFC funds in accounts that earn interest.

We reviewed the PCFO's schedule of cash receipts and disbursements and its banking statements for each of the accounts it utilized for the receipt of CFC funds during the 2010 campaign to determine if interest was earned on CFC funds in each account. During our review we determined that the PCFO utilized six accounts to receive CFC funds for the 2010 campaign: a "campaign" account utilized to receive all funds from government payroll offices and to make disbursements to the member charities; a

“credit card” account to receive those funds pledged by donors using the credit card option available to them in this campaign; and four “foreign” accounts used to deposit cash and check donations received at overseas installations.

Our review determined that three of the accounts utilized by the PCFO did not earn interest on CFC funds at any time and that one account did not earn interest from February 15, 2011 through August 2, 2011. The PCFO stated that the three accounts that did not earn interest were set up in that way so that they did not incur banking fees. The PCFO also informed us that its campaign account ceased earning interest for a short period of time because there was minimal activity in the account and the interest was offset by the fees not being incurred.

The OCFC is the only body permitted to give a PCFO a waiver to this regulation requirement. Based on our discussions with the OCFC, the PCFO did not request a waiver of the interest regulation requirement. Although the PCFO’s intent of saving the CFC money is commendable, it is not the PCFO that makes decisions regarding which regulations should be followed or not. If it is more cost effective to maintain CFC funds in a non-interest-bearing account then it is the fiduciary duty of the PCFO to request a waiver from the regulation requirement.

As a result of not maintaining CFC funds in accounts that earned interest during the entire period, the PCFO did not maximize the potential interest earnings of the second largest campaign in the CFC program.

Recommendation 16

We recommend that the OCFC and LFCC direct the PCFO to either ensure that all CFC funds are maintained in interest-bearing accounts or that it provide the OCFC with a waiver request documenting its determination that keeping funds in non-interest-bearing accounts is advisable.

LFCC and PCFO Response:

The LFCC and PCFO agree with this recommendation. The LFCC has submitted a waiver to OCFC for this regulation so that it may use non-interest-bearing accounts to maximize funds available to distributions. The LFCC will take any action needed based on the OCFC’s response.

4. Un-Cashed Checks Procedures

Procedural

The PCFO’s policies and procedures related to un-cashed checks did not include at least three documented follow-up attempts to reach each payee.

CFC Memorandum 2006-5, part C, provides direction to PCFOs regarding un-cashed checks. Specifically, the memorandum recommends that the PCFO’s policies and procedures for un-cashed checks older than six months should “include at least three

documented follow-up attempts to reach the payee by phone and e-mail.” Although the memorandum uses the term “recommend,” it should be noted that the memorandum also states that “The procedures outlined in this memo should be implemented” As such, the memorandum’s recommended three documented follow-up attempts should be viewed as the minimum requirement of the PCFO.

Additionally, the CFC Audit Guide issued by the OCFC directs the IPA to report as a finding all instances where the PCFO’s un-cashed checks policies and procedures do “not include at least three documented follow-up attempts to reach the payee”

We reviewed the PCFO’s CFC Overseas Accounting Procedures Manual to determine whether the procedures included at least three documented follow-up attempts to reach the payee by phone and e-mail for checks un-cashed after six months. Our review determined that the PCFO’s un-cashed check procedures did not include the number of follow-up attempts required or if the follow-up attempts were documented in any way.

As a result of the insufficient un-cashed check procedures, the PCFO runs the risk of inadvertently redistributing funds due to a valid agency as undesignated funds.

Recommendation 17

We recommend that the OCFC and LFCC ensure that the PCFO has updated its CFC Accounting Procedures Manual to include at least three documented follow-up attempts to reach the payee by phone and e-mail for checks un-cashed after six months.

LFCC and PCFO Response:

The LFCC and PCFO agree with this recommendation. The PCFO has updated its procedures to specifically state that three attempts must be made. The LFCC will review the updated procedures at a future meeting.

5. One-Time Disbursement Percentage Calculation

Procedural

The PCFO did not properly calculate the pledge loss percentage that was applied to organizations receiving one-time disbursements.

5 CFR 950.901(i)(3) states that the “PCFO may deduct the proportionate amount of each organization’s share of the campaign’s administrative costs and the average of the previous 3 years pledge loss from the one-time disbursement.”

In order to clarify the calculation of pledge loss, the OCFC issued CFC Memorandum 2008-9. The Memorandum provides a detailed example of the method of calculating pledge loss and states that the procedures outlined in the Memorandum should be implemented.

As part of our review of one-time disbursements, we recalculated the estimated pledge loss to determine if the one-time disbursement amounts paid to agencies were accurate. Our review found that the PCFO's method of calculating pledge loss was not in accordance with the methodology outlined in the Memorandum. The PCFO simply took the pledge loss percentages for each campaign (2009, 2008, and 2007), totaled them, and divided by three to come up with a pledge loss percentage of 15.514 percent. The pledge loss percentage calculated in accordance with the Memorandum should be 15.518 percent. Although the difference here is immaterial, the method of calculating pledge loss is important and would be material in cases where total pledges and/or pledges received fluctuate from year to year.

As a result of not following the required methodology for calculating pledge loss, the PCFO runs the risk of misapplying pledge loss to those agencies and federations receiving one-time disbursements.

Recommendation 18

We recommend that the OCFC and the LFCC direct the PCFO to calculate pledge loss in accordance with CFC Memorandum 2008-9 for all future campaigns.

LFCC and PCFO Response:

The PCFO agrees with the recommendation and states that it "has updated its procedures manual to ensure that its methodology for calculating the three-year shrinkage average conforms to CFC Memorandum 2008-9." The LFCC will review the revised procedures at a future meeting.

D. ELIGIBILITY

Our review of eligibility found that the charity list included all required information and that the members of the LFCC during the campaign were current federal employees.

E. FRAUD AND ABUSE

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

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

██████████, Auditor-In-Charge

██████████, Auditor

██████████ Group Chief, (██████████)

██████████, Senior Team Leader



November 16, 2012
Report No. 3A-CF-00-12-046

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

Dear [REDACTED]

Thank you for providing the draft report on the results of your audit of the 2009 and 2010 campaigns of the Combined Federal Campaign Overseas (CFC-O). Attached is a summary of the Local Federal Coordinating Committee (LFCC) and Principal Combined Fund Organization (PCFO) responses to the OIG Recommendations. These are based upon discussions between the LFCC and Global Impact, the (PCFO) for the CFC-O, as well as additional data provided by Global Impact.

Following communication between the PCFO and OPM IG subsequent to the exit conference, OPM IG withdrew recommendations 7 and 8 about funds disbursement. We appreciate the further review and analysis conducted by OPM IG and resolution of this issue in advance.

The unique nature of the CFC-O and the special roles which differ from domestic campaigns, the challenges of long-distance training and follow-up with donors through project officers at each installation present challenges exclusive to this campaign that you will not find in other CFC programs. Based upon our discussions with the PCFO personnel and additional data they have provided, below is a summary of the LFCC and PCFO responses to your remaining recommendations. The accompanying analysis from Global Impact, which is an integral part of the response, provides the PCFO's detailed discussion of the findings and recommendations, particularly those matters where the LFCC and/or the PCFO does not agree with the finding.

We look forward to working with you to ensure that you can issue the final report in the near future. In addition, we will work with Office of the Combined Federal Campaign (OCFC) to clarify rules and to implement innovations to mitigate some of these issues in the future.

Please don't hesitate to contact us if you have any questions. You can reach [REDACTED] at [REDACTED] or via e-mail at [REDACTED]. You can reach Mr. Berman at [REDACTED] or via e-mail at [REDACTED].

Sincerely,

[REDACTED]
Director
Voluntary Campaign Management Office

Stanley M. Berman, CPA
Chief Financial Officer
Global Impact

Enclosures

C: Members, Local Federal Coordinating Committee

Mark W. Lambert
Associate Director, Merit System Audit and Compliance

Janet L. Barnes
Director, Internal Oversight and Compliance

[REDACTED]
Director, Office of the Combined Federal Campaign

[REDACTED]
Office of the Combined Federal Campaign

Scott Jackson
CEO, Global Impact

Renee Acosta
President, Global Impact

OPM IG Recommendation

Response

1. We recommend that the OCFC and the LFCC ensure that the IPA utilized to complete the Audit Guide's AUPs fully understands the CFC and its related regulations so that it may complete the steps correctly and completely.

The LFCC will ensure that the PCFO's procedures are amended to specifically mention that at least three follow-up calls must be made when a designated contribution is unable to be honored. In addition, the LFCC will ensure that the IPA fully understands the CFC Audit Guide and its related regulations so that it may complete the steps correctly and completely. The LFCC will meet with the designated IPA annually before the audit commences to ensure that the minimum three follow-up contacts are made.

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Not relevant to the final report

2. We recommend that the OCFC and LFCC direct the PCFO to distribute \$17,000 in unallowable expenses as undesignated funds to the charities participating in the 2011 campaign.

After discussions with the PCFO, it accepts part of the finding and has refunded the various miscellaneous expenses totaling \$887. However, the PCFO has reported to the LFCC that they do not agree with the remainder of the finding. In the accompanying analysis, the PCFO provides additional documentation to support its positions. Please consider amending this recommendation based upon your review of this additional documentation. After the OPM IG review, the LFCC will ensure that the final decision of OPM IG is carried out and any expenses disallowed will be distributed to charities that participated in the 2011 campaign.

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Not relevant to the final report

3. We recommend that the OCFC provide guidance to all LFCCs and PCFOs as to what should be considered unallowable campaign expenses including, but not limited to, those items questioned above.

The LFCC agrees that further guidance to LFCCs and PCFOs is needed to ensure only allowable campaign expenses are incurred and reimbursed. The LFCC and PCFO will await further guidance from OCFC.

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

The LFCC has instructed the PCFO to follow CFC regulations and OPM guidance when determining in which campaign period an expense belongs.

5. We recommend that the LFCC ensure that the PCFO is only reimbursed for its actual costs related to the administration of the campaign awards pursuant to 5 CFR 950.106.

The LFCC will ensure that the PCFO is only reimbursed for its actual costs related to the administration of the campaign pursuant to 5 CFR 950.106 by reviewing transaction records and other documentation related to the administration of the campaign awards.

6. We recommend that the OCFC and LFCC direct the PCFO to either properly allocate interest expense to the appropriate campaigns in accordance with the regulations, or to have a separate LOC for each campaign.

The LFCC needs additional guidance from the OCFC in determining exactly what we need to do. The LFCC and the PCFO are open to receiving and implementing cost-effective guidance from OCFC on how to bring current practices into alignment with the requirements in laws and regulations related to allocating the interest expenses.

9. We recommend that the OCFC direct the PCFO to put procedures in place to ensure that, in the case where a donor's total gift exceeds the total of the individual designations, it does not increase individual designations to match the total gift amount.

The recommendation has been discussed with the PCFO and, based on current guidance, we concluded that the PCFO is allowed to correct obvious errors. However, the LFCC believes additional detailed guidance is needed from the OCFC so that we can continue to respect and carry out the wishes of the donor while at the same time following the spirit and intent of the audit guidelines. As stated earlier, the unique nature of the Overseas campaign complicates discrepancy resolution in a timely manner.

10. We recommend that the OCFC direct the PCFO to train its keyworkers in the field to review all pledge forms to ensure that they are completed properly by the donor. Specifically, the keyworkers should ensure that the paper pledge forms are legible, only include a maximum of five designations per form, that the payroll deduction authorization is signed, and the pledge forms are

While the LFCC and PCFO agree that thorough training of all of those working on the campaign is necessary, the LFCC needs additional guidance from OCFC concerning the specific issues raised by the OIG. For example, we feel that the issue about a donor placing seven charities on a pledge form (even though different from instructions in the catalog) do not violate audit guidelines and, therefore, would not invalidate the pledge.

returned to the donor for corrections before the pledge form is forwarded to the PCFO.

In addition, the LFCC and PCFO do not believe that the lack of a signature on the audit copy of the pledge form invalidates the pledge. The signature requirement applies to the form submitted to the payroll department (DFAS) in order to authorize the payroll deduction. It is not currently required on the audit/deposit form and a signature is not required for cash or check donations. The audit/deposit form does not authorize any financial transaction or activity against the donor. It is used to ensure the proper distribution of funds is made to the charities. Some employees, in an effort to protect PII, will sign the payroll copy but will block their signature on the PCFO copy of the pledge form. Campaign workers have been consistently trained that a payroll deduction cannot be processed without a valid signature on the payroll copy of the form.

11. We recommend that the OCFC ensure that the PCFO has implemented procedures to ensure that duplicate pledge forms are not reported in its pledge reports in the future.

The PCFO has been requested to provide an update to OCFC and the LFCC of the procedures that are in effect for the fall 2012 campaign to reduce the chance that duplicate pledges will be processed.

12. We recommend that the OCFC and LFCC direct the PCFO to record all designations that cannot be supported by official documentation as undesignated in the future.

The PCFO agrees that it will record all designations that cannot be supported by official documentation as undesignated. In its 2012 compliance audit, the LFCC will verify that the procedure has been followed by the PCFO.

13. We recommend that the OCFC and LFCC direct the PCFO to institute policies and procedures to ensure that donor release of information is properly entered into its pledge form database.

The LFCC has directed the PCFO to institute policies and procedures to ensure that donor release information is properly entered into its data base. In its 2012 compliance audit, the LFCC will verify that the procedure has been followed by the PCFO.

14. We recommend that the OCFC and LFCC direct the PCFO to institute systems enhancements to ensure that a donor's name is only released to charities when the home address,

The LFCC will direct the PCFO to institute policies and procedures to ensure that a donor's name is only released to charities when the home address, email address or amount fields are populated in the database, except in

email address or amount fields are populated in the database.

those instances where, in accordance with regulation, the donor asks only that his/her name be released. In its 2012 compliance audit, the LFCC will verify that the procedure has been followed by the PCFO.

15. We recommend that the OCFC and LFCC direct the PCFO to either ensure that all CFC funds are maintained in interest bearing accounts or that it provide the OCFC with a waiver request documenting its determination that keeping funds in non-interest bearing accounts is advisable.

The LFCC has submitted a request to OCFC for a waiver of the regulation related to interest-bearing accounts so that the campaign can maximize the funds available for distributions to charities. Based on the OCFC's response, the LFCC will take any follow-up action needed.

16. We recommend that the OCFC direct the PCFO to update its CFC Accounting Procedures Manual to include at least three documented follow-up attempts to reach the payee by phone and e-mail for checks uncashed after six months.

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Not relevant to the final report

the PCFO procedure has been updated to state that at least three follow-up attempts must be made. The revised procedure will be reviewed by the LFCC at a future meeting.

17. We recommend that the OCFC and the LFCC direct the PCFO to calculate pledge loss in accordance with CFC Memorandum 2008-9 for all future campaigns.

The PCFO has updated its procedures manual to ensure that its methodology for calculating the three-year shrinkage average conforms to CFC Memorandum 2008-9. The LFCC will review the revised procedure at a subsequent meeting.

RESPONSE TO DRAFT REPORT OF AUDIT 3A-CF-99-12-046, COMBINED FEDERAL CAMPAIGN-OVERSEAS

Global Impact, which serves as Principal Combined Fund Organization (PCFO) for the Combined Federal Campaign – Overseas, hereby submits this response to the Office of Personnel Management Office of Inspector General’s (OIG) draft report 3A-CF-00-12-046, Combined Federal Campaign – Overseas, which was issued on October 4, 2012 (the “Draft Report”).

This response addresses all of the findings contained in the Draft Report except for the one relating to undisbursed campaign funds. OIG has indicated that it is reviewing additional information provided by Global Impact that such funds were properly disbursed and that if OIG requires a response, OIG will notify Global Impact and the Local Federal Coordinating Committee and will provide an opportunity for response.

In this response, where Global Impact accepts the OIG’s finding and/or recommendations it so indicates. Where Global Impact disagrees with OIG’s findings and/or recommendations, explanations are provided and, if applicable, additional documentation is attached.

A. AUDIT GUIDE REVIEW

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Not relevant to the final report

B. BUDGET AND CAMPAIGN EXPENSES

1. Campaign Expenses

Deleted by OIG
Not relevant to the final report

- **██████████ unallowable business class tickets on international flights**

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Not relevant to the final report

The PCFO does not agree with this finding for three reasons. First, the Federal Travel Regulations (FTR) apply to government employees, and, to the knowledge of the PCFO, OPM has never informed the PCFO that it must apply the FTR. Accordingly, the OIG’s recommendation, if accepted, would unilaterally impose a requirement that has never been part of CFC regulations, and if the PCFO is required to reimburse the campaign, implementation of the FTR will have been imposed retroactively without prior notice. Global Impact will request guidance from OCFO regarding the applicability of the FTR.

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Not relevant to the final report

Third, we disagree with the OIG's calculation of the amount that it has questioned on the other trip because OIG assumed use of non-refundable tickets. CFC-O's common practice is *not* to use refundable tickets for combatant command visits. While the primary purpose of these trips is the meeting with the commander, other meetings are typically scheduled around that meeting to maximize benefit of the trip. These command visits are subject to frequent last minute change due to the requirements of the command. A change of itinerary often results, making non-refundable tickets an inefficient and expensive choice.

Given this environment of frequent schedule changes, the PCFO believes that through the years CFC-O has saved thousands of dollars by the use of refundable rather than non-refundable tickets.

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Not relevant to the final report

- **\$1,200 for a monthly stipend to an employee working from a home office**

Global Impact Personnel Policy 408, Working from Home, concerns employees who telecommute. Part of this policy addresses employees whose permanent duty station is their home:

Some positions at Global Impact are regular positions that work from home. If a position is a regular work from home position at the request of Global Impact, Global Impact may provide the employee with a monthly stipend to offset office expenses.

This policy further provides:

The monthly stipend that may be paid to regular work from home employees is meant to cover work costs such as office supplies, phone line, internet access and furniture. This is not an exhaustive list.

During the fall 2010 campaign the stipend paid was \$300 per month.

██████████ is a Global Impact employee who was assigned to work on the fall 2010 campaign on a full time basis. During the period of the fall 2010 campaign, her husband was transferred from Germany to Kansas. ██████████ Global Impact decided it was in the best interest of the campaign to have her remain an employee and to work from her home. As a Global Impact employee, she was thus entitled to the stipend.

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Not relevant to the final report

- **Software Licensing Fees**

Global Impact strongly disagrees with OIG's assertion.

Global Impact's CFC Accelerator (formally called MANAGE) is a Campaign Management Reporting technology developed, maintained and owned by Global Impact. Global Impact presented CFC Accelerator and its \$10,000 licensing fee transparently to the LFCC in every one of its proposals to serve as PCFO and, as PCFO, in the annual campaign budgets that were submitted to the LFCC for approval. Not only did the LFCC approve each budget that included the licensing fee but annually it signed a licensing agreement for its use. CFC Accelerator provides CFC-O an array of solutions beyond the reporting capabilities which increased funds raised for charity and decreased costs.

Global Impact regularly assesses its technology against the market in order to optimize the campaigns it administers. Global Impact is well aware of CFC Assistant. CFC Assistant could not be used to administer CFC-O in an effective or efficient manner quite simply because CFC Assistant is designed for smaller campaigns and it does not have the capabilities required for the CFC-O.

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Not relevant to the final report

Without CFC Accelerator, Global Impact would need to add PCFO staff in order to handle the volume of deposits and address the risks inherent in a paper-based process. The additional staff salaries would be several times the license fee of \$10,000, making CFC Accelerator a cost-effective and justified solution to minimizing risk to the campaign.

2. Interest Expense Allocation

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Not relevant to the final report

The PCFO has arranged one line-of-credit for CFC-O. This line-of-credit is linked directly to the CFC-O operating account, so that the operating account can function as if it were a zero-balance bank account. As items are presented for payment in the account, regardless of year, they create an automatic draw on the line-of-credit, which allows the operating account to be maintained with a permanent balance per bank of zero, so that the operating account can be maintained without a compensating balance.

Whenever campaign expenditures are approved by the LFCC for reimbursement from campaign collections, the authorized reimbursement is used to pay down the outstanding balance of the line-of-credit. Typically, at its June meeting the LFCC approves the reimbursement of all accepted expenses of the old campaign not previously approved, which means and expenses of the old campaign that are paid in April – June are reimbursed by the end of June pursuant to approval at that meeting.

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Not relevant to the final report

The PCFO's historical accounting practice has been to account for interest expense as a period expense, so that, say, interest incurred in August is charged to the new campaign in full, even though a small portion of August expenditures would have been incurred to collect pledges and make monthly distribution of funds received from the previous fall's campaign in July. Because the PCFO has consistently applied this accounting policy for many years, the amount of interest actually charged to any one campaign is very close to the amount that would have be charged if a detailed attempt was made to precisely apportion monthly interest expense between campaigns.

As part of Recommendation 6, the OIG suggests that a separate line-of-credit be arranged for each campaign year. The OIG should be aware that the granting of a line-of-credit by a bank for CFC-O or any other CFC is far from automatic. Because campaign collections cannot be used as collateral to pay down the line, a bank must assess the ability of the PCFO to pay down the line with its own resources, in case the campaign is cancelled in mid-stream and/or an LFCC disallows significant campaign expenditures. In its periodic testing of the market for banking services, the PCFO has found that some banks are unwilling to undertake such a risk, despite Global Impact's strong financial health that has allowed it to arrange a line-of-credit for CFC-O at favorable rates with one bank. We believe it would be far harder to find a financial institution that was willing to engage in a relationship that includes a distinct line-of-credit for each campaign year because of the additional complexity of concurrent lines-of-credits and cost that would be involved. Additionally, our experience is that most PCFOs could expect a bank to charge set-up and processing fees in the \$2,500 - \$5,000 range to cover the costs of its analysis and other activities involved with the set-up or renewal of a single line-of-credit; such fees would approximately double annually if there were two lines. Finally, the PCFO would have to devote more time to effectively administer two lines of credit, which would increase the cost of the campaign even more. Thus, we do not believe this part of the OIG's Recommendation 6 is practical, and we urge the OIG not to include it in its final report.

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Not relevant to the final report

In summary, we do not disagree with the recommendation on a theoretical accounting basis, but we urge that it be recast to seek guidance from OCFC about how it wants interest expense

accounted for. We hope that if OCFC does accept the accounting contained in Recommendation 6, it provides guidance to all PCFOs in the form of a simple acceptable methodology so that the additional administrative costs that will be required to account for interest expense can be minimized.

C. CAMPAIGN RECEIPTS AND DISBURSEMENTS

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Not relevant to the final report



December 10, 2012

Report No. 3A-CF-00-12-046

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

Dear Ms. Oliver:

Thank you for providing the supplemental draft conclusions regarding the results of your audit of the 2009 and 2010 Combined Federal Campaign Overseas (CFC-O). Based upon discussions between the Local Federal Coordinating Committee (LFCC) and the Principal Combined Fund Organization (PCFO), attached is our response to your finding on interest charges. LFCC Member Roberta Lowe had her staff at WHS-FMD staff review the attached document. They concur that Global Impact's procedures are in accordance with GAAP.

We look forward to working with you to ensure that you can issue the final report in the near future. Please do not hesitate to turn to the Voluntary Campaign Management Office (VCMO) or to Global Impact which serves as Principal Combined Fund Organization (PCFO) for further questions as you review this response and the response from the PCFO. You can reach the VCMO though [REDACTED] at [REDACTED] or via e-mail at [REDACTED]. You can reach the PCFO through Stan Berman, [REDACTED] or [REDACTED].

Sincerely,

A large black rectangular redaction box covering the signature and name of the sender.

Director, Voluntary Campaign Management Office

A handwritten signature in black ink, appearing to read "Stanley M. Berman".

Stanley M. Berman, CPA, CGMA
Chief Financial Officer, Global Impact

Enclosures

PCFO RESPONSE TO DRAFT FINDING AND RECOMMENDATIONS OF THE OFFICE OF THE INSPECTOR GENERAL CONCERNING THE ACCOUNTING FOR CREDIT CARD FEES BY THE COMBINED FEDERAL CAMPAIGN - OVERSEAS

In an email dated November 15, 2012, the OIG stated that “The PCFO did not adhere to its responsibility to conduct a campaign aimed at maximizing the charitable contributions donated by both Federal employees and members of the US Military serving overseas.” The specific issue of concern to the OIG is the PCFO’s accounting policies and practices concerning credit card fees.

The PCFO disagrees with the OIG’s finding.

The PCFO disagrees with the OIG’s Recommendation A because its accounting for credit card fees is already in full compliance with Generally Accepted Accounting Principles (GAAP), and it believes that OIG’s recommendation is contrary to GAAP.

The PCFO disagrees with the OIG’s Recommendation B because it believes it is already correctly preparing the OCFC Campaign Cash and Receipts and Disbursements Form, which has been accepted without adjustment by OCFO every year since the fall 2006 Campaign, when CFC-O began to offer a credit card giving option to its donors.

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Not relevant to the final report

PCFO Response

The PCFO believes that two regulations directly support its position:

5 CFR §950.105(d)(8) states that the PCFO is responsible for “...Keeping and maintaining CFC financial records and interest-bearing bank accounts separate from the PCFO’s internal organizational financial records and bank accounts... **All financial records and bank accounts must be kept in accordance with generally accepted accounting principles.**” (emphasis added)

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.” (emphasis added)

CFC-O offers choices in the ways that donors may donate to the CFC that include credit cards, debit cards and eCheck. Its processor of credit and debit cards credits payments in full/gross and debits the PCFO’s campaign bank account for its fees in the following month. However, its eCheck processor nets its fees against payments made to the campaign bank account.

In accordance with GAAP, the PCFO records the embedded fees as expenses, and thus records the full amount paid by donors as revenue. The PCFO’s procedures ensure that ultimately, the full amount paid by the donor is reflected in the campaign bank account, regardless of whether

fees are netted or not, and the fees incurred, whether embedded or not, are charged to the campaign operating account.

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Not relevant to the final report

The PCFO believes that the explicit reference to gross receipts in 5 CFR 950.106(a) is a strong indicator that OCFC expects gross receipts to be used when accounting for donations. The PCFO also believes that its current procedure allows the LFCC to approve all expenses incurred by the campaign. If these expenses were netted against collections, we think it likely that that LFCC would never see them because they would never appear as an expense of the campaign.

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Not relevant to the final report

The OIG has expressed a concern that because the PCFO makes distributions based on totals actually received before netting, there is a resulting draw against the line-of-credit. In the fall 2010 campaign, CFC-O incurred a total of \$21,559.77 in credit card fees. Given the timing of when these transfers were incurred and the average interest rate charged on the line-of-credit, the PCFO estimates that the total interest expense that CFC-O incurred in the 2010 campaign was about \$250. We believe this is an extraordinary small price to pay for the resulting clean audit trails.

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Not relevant to the final report