



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

Final Audit Report

Subject:

**AUDIT OF THE 2007 THROUGH 2010
COMBINED FEDERAL CAMPAIGNS
OF THE NATIONAL CAPITAL AREA
ALEXANDRIA, VIRGINIA**

Report No. 3A-CF-00-10-034

Date: March 14, 2012

--CAUTION--

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

AUDIT REPORT

**AUDIT OF THE 2007 THROUGH 2010
COMBINED FEDERAL CAMPAIGNS
OF THE NATIONAL CAPITAL AREA
ALEXANDRIA, VIRGINIA**

Report No. 3A-CF-00-10-034

Date: March 14, 2012

A handwritten signature in black ink, appearing to read "Michael R. Esser", written over a horizontal line.

Michael R. Esser
Assistant Inspector General
for Audits

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

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Inspector General

EXECUTIVE SUMMARY

**AUDIT OF THE 2007 THROUGH 2010
COMBINED FEDERAL CAMPAIGNS
OF THE NATIONAL CAPITAL AREA
ALEXANDRIA, VIRGINIA**

Report No. 3A-CF-00-10-034

Date: March 14, 2012

The Office of the Inspector General has completed an audit of the 2007 through 2010 Combined Federal Campaigns (CFC) of the National Capital Area (NCA). Global Impact, located in Alexandria, Virginia, served as the Principal Combined Fund Organization (PCFO) during these campaigns. Our main objective was to determine if the CFCNCA 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 seven instances of non-compliance with the regulations governing the CFC, and questions \$308,820 in expenses charged to the campaigns. In addition, we identified \$764,069 in expenses that could have been put to better use for the campaigns.

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

AUDIT GUIDE REVIEW

Our review of the Independent Public Accountant's completion of the agreed-upon procedures for the 2007 campaign showed that it complied with applicable provisions of the CFC Audit Guide For Campaigns with Pledges \$1 Million and Greater (CFC Audit Guide).

BUDGET AND CAMPAIGN EXPENSES

- **Untimely PCFO Reimbursement for 2007 and 2008 Expenses** **Procedural**

The PCFO reimbursed itself for CFC campaign expenses after the date set by the Office of Personnel Management's (OPM) Office of the Combined Federal Campaign (OCFC) for final campaign disbursements in campaign years 2007 and 2008.

- **PCFO Overcharged for Travel Expenses** **\$40,081**

It should be noted that although the PCFO labeled this expense category as travel expenses, they also included other types of expenses such as meals and appreciation luncheons in this category, which are included in the questioned amounts below. We noted the following from our review of these expenses:

1. The PCFO was reimbursed for unreasonable, unallowable, or unsupported travel expenses in the amounts of \$15,318 in 2007, \$12,733 in 2008, and \$12,030 in 2009.
2. Additionally, the PCFO charged expenses to the wrong campaign in the amounts of \$8,411 in 2007, \$2,164 in 2008, and \$5,228 in 2009. We are not requiring that these amounts be reallocated to the appropriate campaign since the campaign years in question are already closed.

- **PCFO Overcharged for Campaign Expenses** **\$268,739**

We noted the following from our review of campaign expenses:

1. The PCFO was reimbursed for unreasonable, unallowable, or unsupported expenses in the amounts of \$81,640 in 2007, \$80,958 in 2008, and \$106,141 in 2009.
2. Additionally, the PCFO charged expenses to the wrong campaign in the amounts of \$39,605 in 2007, \$49,076 in 2008, and \$22,366 in 2009. We are not requiring that these amounts be reallocated to the appropriate campaign since the campaign years in question are already closed.
3. Finally, we identified \$764,069 related to training events, CFCNCA conferences, design and marketing services, software applications and licensing fees, appreciation luncheons, and finale events that could have been put to better use by the PCFO.

- **Improper Accounting for Campaign Expenses by PCFO** **Procedural**

The PCFO's accounting policies and procedures allowed for the reimbursement of accrued costs as well as actual costs, which could potentially result in overcharges to the campaign and limit the amounts disbursed to the participating charities.

CAMPAIGN RECEIPTS AND DISBURSEMENTS

- **PCFO was Reimbursed for Estimated Expenses** **Procedural**

The PCFO was incorrectly reimbursed \$2,129 for estimated expenses related to a special distribution of funds.

- **Unearned Interest in the CFCNCA Bank Accounts** **Procedural**

The PCFO did not obtain approval from the OCFC for earning a credit, instead of interest, on campaign funds in the CFCNCA [REDACTED] Account.

ELIGIBILITY

- **Untimely Notice of Eligibility Decisions by LFCC** **Procedural**

The LFCC did not issue its eligibility decisions within 15 business days of the closing date for receipt of applications, for charities wishing to participate in the 2008 campaign.

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I. INTRODUCTION AND BACKGROUND

INTRODUCTION

This report details the findings and conclusions resulting from our audit of the Combined Federal Campaigns of the National Capital Area (CFCNCA) for 2007 through 2010. 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 2009, it consisted of 226 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 cards and brochures; 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.

All findings from our previous audit of the CFCNCA (Report Number 3A-CF-00-03-011, dated May 9, 2005), covering the 2001 campaign, have been satisfactorily resolved.

The initial results of our audit were discussed with PCFO officials during the exit conference held on December 8, 2010. The LFCC did not attend the exit conference. A draft report was provided to the PCFO and the LFCC on May 31, 2011, for review and comment. The PCFO's responses to the draft report were considered in the preparation of this final report and are included as Appendices. The draft responses are not included in their entirety because of their size. Instead, we only included portions of the responses that directly addressed the PCFO's comments to our audit issues. No formal comments were provided by the LFCC to the draft report.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The primary purpose of our audit was to determine if the CFCNCA was in compliance with 5 CFR 950, including the activities of both the PCFO and the LFCC. One of our audit objectives for the 2007 campaign was:

Audit Guide Review

- To determine if the IPA completed the Agreed-Upon Procedures (AUPs) as outlined in the CFC Audit Guide For Campaigns with Pledges \$1 Million and Greater (CFC Audit Guide).

Additionally, our audit objectives for the 2007 through 2009 campaigns were as follows (for the 2010 campaign, the review was limited to the area specifically indicated below):

Budget and Campaign Expenses

- To determine if the PCFO solicitation, application, campaign plan, and budget were in accordance with regulations. **(These areas were also reviewed for the 2010 campaign)**
- 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 card format was correct and if the pledge card report agreed with the actual pledge cards.
- 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 agencies¹ 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; if the charitable organization application process was open for the required 30-day period; if the applications were appropriately reviewed, evaluated, and approved; if the applicants were notified of the eligibility decisions in a timely manner; and if the appeals process for denied applications was followed.

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

¹ The terms 'member agencies' and 'agencies', used throughout this report, refer to charitable organizations that participate in the CFC.

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 the 2007 through 2010 campaigns. Global Impact, located in Alexandria, Virginia, served as the PCFO during these campaigns. The audit fieldwork was conducted at the offices of the PCFO from July 12 through July 23, 2010. Additional audit work was completed at our Washington, D.C. office. The significant amount of time from the end of our audit to the issuance of this report is due largely to the voluminous response by the PCFO to the draft report, and the extensive review and analysis that was necessary to finalize the report.

The CFCNCA received campaign pledges, collected campaign receipts, and incurred campaign administrative expenses for the 2007 through 2009 campaigns as shown below:

Campaign Year	Total Pledges	Total Receipts	Administrative Expenses
2007	\$60,799,023	\$57,895,815	\$5,381,784
2008	\$62,733,353	\$59,728,858	\$5,054,516
2009	\$66,535,844	\$64,768,634	\$5,009,496

At the time of this report, 2010 information was not available since the campaign was still open.

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 card 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 the CFC Memoranda issued by the OCFC.

To accomplish our objective for the Audit Guide Review, we reviewed the CFC Audit Guide and completed the AUP checklist to verify that the IPA completed and documented the AUP steps.

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

- For the 2007 through the 2010 campaigns, we reviewed the PCFO's applications to verify if they were complete.

- For the 2007 through the 2010 campaigns, we 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.
- For the 2007 through the 2009 campaigns, we traced and reconciled the amounts on the PCFO's Schedule of Actual Expenses to the PCFO's general ledger.
- For the 2007 through 2009 campaigns, we reviewed the PCFO's budgeted expenses, the LFCC's approval of the budget, and matched a sample of actual expenses to supporting documentation. We examined the following campaign expense items for campaign years 2007 through 2009:
 1. We judgmentally selected 61 travel and meals transactions (totaling \$37,301 from a universe of 196 transactions totaling \$46,952) for 2007; 30 travel and meals transactions (totaling \$20,446 from a universe of 189 transactions totaling \$32,819) for 2008; and 31 travel and meals transactions (totaling \$40,212 from a universe of 233 transactions totaling \$60,597) for 2009.
 2. We judgmentally selected 228 campaign expense transactions, excluding travel expenses, (totaling \$2,273,185 out of a universe of 621 transactions totaling \$2,570,431) for 2007; 245 campaign expense transactions (totaling \$2,541,549 from a universe of 839 transactions totaling \$2,320,468) for 2008²; and 191 campaign expense transactions (totaling \$2,190,970 from a universe of 565 transactions totaling \$2,514,154) for 2009. The sample and universe transaction amounts were derived by netting total expense debits and total expense credits.
 3. We judgmentally selected, based on a nomenclature review, whether the expense appeared to be unusual, and whether the expense benefitted the campaign: 59 indirect expense transactions (totaling \$509,690 from a universe of 930 transactions totaling \$1,150,198) for 2007; 32 indirect expense transactions (totaling \$175,902 from a universe of 575 transactions totaling \$656,927) for 2008; and 21 indirect expense transactions (totaling \$96,171 from a universe of 190 transactions totaling \$329,922) for 2009.
 4. We judgmentally selected a sample of all PCFO employees (i.e., CFCNCA staff members) who were 100 percent dedicated to the CFCNCA, or whose salary was allocated between CFC and non-CFC work. We had concerns about how the salaries were allocated so we tested the amount of the salaries that were charged to the campaign. Specifically, we selected 28 out of 132 employees in 2007, 21 out of 132 employees in 2008, and 28 out of 132 employees in 2009.
- For the 2007 and 2008 campaigns, we reviewed the LFCC meeting minutes and verified that the LFCC authorized the PCFO's reimbursement of campaign expenses.

² Because sample and universe transaction amounts were derived by netting total expense debits and total expense credits, for 2008, the sampled transaction amount was greater than the universe transaction amount.

- For the 2007 through the 2009 campaigns, we compared the budgeted expenses to actual expenses and determined if actual expenses exceeded 110 percent of the approved budget.

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

- A judgmental sample of 75 pledge cards totaling \$19,316, and 12 electronic pledges totaling \$8,559 (from a universe of 139,404 pledge cards, totaling \$62.7 million) from the 2008 PCFO's Pledge Card Report and compared the pledge information from the report to the actual pledge cards. Specifically, we judgmentally selected the first 25 pledge cards on each of 3 tabs in the Pledge Card Detail Schedule and the first 3 donors on each of 4 tabs in the Electronic Pledges File for review;
- Cancelled distribution checks for the 2008 campaign to verify that the appropriate amount was distributed in a timely manner;
- One-time disbursements, for the 2007 and 2008 campaigns, 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 for the 2008 campaign 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 list letters for the 2008 campaign sent by the PCFO to organizations to verify the letters properly notified the organizations 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 2007 and 2008 campaign receipts and disbursements;
- All bank statements used by the PCFO for the 2008 campaign to verify that the PCFO was properly accounting for and distributing funds; and
- The PCFO's cutoff procedures and bank statements for the 2008 campaign 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 we reviewed the following:

- For the 2007 through 2009 campaigns, the public notice to prospective charitable organizations to determine if the LFCC accepted applications from organizations for at least 30 days;
- For the 2008 campaign, the process and procedures for the application evaluation process;
- For the 2008 campaign, a sample of eligibility letters to verify they were properly sent by the LFCC; and
- For the 2008 campaign, the LFCC's processes and procedures for responding to appeals from organizations.

The samples mentioned above, that were selected and reviewed in performing the audit, were not statistically based. Consequently, the results could not be projected to the universe since it is unlikely that the results are representative of the universe taken as a whole.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. AUDIT GUIDE REVIEW

Our review of the IPA's completion of the AUPs for the 2007 campaign showed that it complied with the applicable provisions of the CFC Audit Guide.

B. BUDGET AND CAMPAIGN EXPENSES

1. Untimely PCFO Reimbursement for 2007 and 2008 Expenses **Procedural**

The PCFO reimbursed itself for campaign expenses after the date set by OPM's OCFC for final campaign disbursements to be made in campaign years 2007 and 2008.

The CFC Calendar of Events, issued by OPM's OCFC, required the PCFO to make the final distributions to close out the campaigns by March 31, 2009, for the 2007 campaign and March 31, 2010, for the 2008 campaign.

We reviewed all of the PCFO's CFC disbursements to determine if they were timely in accordance with the CFC Calendar of Events. During our review, we found that the PCFO's final expense reimbursements, for both the 2007 and 2008 campaigns, were made past the deadline set by the CFC Calendar of Events. Specifically, we found the following:

- For the 2007 campaign, the PCFO's final CFC expense reimbursement, totaling \$11,025, was made in April 2010. This reimbursement was made over one year past the deadline (March 31, 2009) set in the CFC Calendar of Events.
- For the 2008 campaign, the PCFO's final two CFC expense reimbursements, totaling \$10,568 and \$33,170, were made in April and June 2010, respectively. Both payments were made past the March 31, 2010, deadline set in the CFC Calendar of Events.

Additionally, 5 CFR 950.105(c)(2)(iii) states that in applying for the position of PCFO, the applying organization pledges to "abide by the directions, decisions, and supervision of the LFCC and/or Director" (OPM). It is our opinion that the CFC Calendar of Events as issued by the OCFC are directions received from OPM.

As a result of misinterpreting the intent of the guidance provided in OPM's CFC Calendar of Events as to final campaign disbursements, the PCFO reimbursed itself in an untimely manner for both the 2007 and 2008 campaigns.

PCFO Comments:

The PCFO contends that the OIG mistakenly alleges that all campaign expense disbursements must be made on or before the second March 31 following the commencement of the campaign. It interprets the deadlines for final campaign disbursement that are included in OPM's CFC Calendar of Events to apply only to distributions to charities, because final expense reimbursement cannot be completed until all third party expense invoices or other demands for payment related to a campaign are received by the PCFO. In some cases, third party expenses are incurred right up to the Calendar's deadline and invoices are received by the PCFO after the deadline has passed. If the OIG's interpretation is correct, those invoices would not be able to be paid.

OIG Response:

We disagree with the PCFO's contention that the deadlines for final campaign expense disbursement included in OPM's CFC Calendar of Events only apply to the distributions to charities. The Calendar of Events clearly directs the PCFO to make the final disbursement of "campaign funds" by its specified deadlines. There is nothing that would indicate that "campaign funds" refers only to funds that are to be disbursed to charities, as opposed to all remaining campaign funds that need to be disbursed, including the PCFO's campaign expense reimbursement. The only amounts that are excluded from the final disbursement are those costs that are accrued to cover expenses that will be incurred after the close of the campaign.

Additionally, we would question whether the third party expenses mentioned by the PCFO are being charged to the correct campaign. Typically, by the second February following the commencement of the campaign, campaigns are not incurring expenses for the current campaign, but for subsequent campaigns. For example, expenses related to the solicitation of a PCFO are typically incurred at this time, and these expenses should be charged to the upcoming campaign instead of the current campaign. However, if the PCFO knows they are going to be incurring legitimate campaign costs close to the March 31st deadline, then they should follow the guidance contained in CFC Memorandum 2008-09, which directs the PCFO to accrue costs that will be incurred after the close of the campaign and withhold funds for the expense from the final campaign distribution. Once the actual expense is incurred, the PCFO should compare the actual expense to the accrued amount. If the amounts are equal, then the PCFO should request authorization from the LFCC to be reimbursed for the actual expense amount. If the amounts are different, the memorandum dictates that the difference should be handled in one of the following ways:

- If the cost is less than the amount withheld and the difference is less than one percent of the campaign's gross pledges, the amount remaining after paying the invoice should be distributed to the currently active campaign.

- If the cost is less than the amount withheld and the difference is greater than one percent of the campaign's gross pledges, the campaign should be reopened and a distribution made to all organizations (except for those that received one-time disbursements).
- If the cost is greater than the amount withheld and the overage is less than one percent of the campaign's gross pledges, the PCFO should provide the LFCC with an explanation for the overage and request authorization from the LFCC to use funds from the currently active campaign to pay for the overage.
- If the cost is greater than the amount withheld and the overage is greater than one percent of the campaign's gross pledges, the LFCC should meet with the PCFO to determine the reasons for the overage. If the reasons were due to issues within the PCFO's control, then the LFCC may either authorize payment from the currently active campaign or require the PCFO to pay the overage. If the reasons were due to issues outside of the PCFO's control, the LFCC should authorize payment of the overage from funds of the currently active campaign.

Consequently, as we mentioned in the finding above, we conclude that the PCFO misinterpreted the intent of the deadlines set in OPM's CFC Calendar of Events. Because of this misinterpretation, the PCFO reimbursed itself in an untimely manner for both the 2007 and 2008 campaigns. Additionally, by reimbursing itself after the deadline set for final distributions, the PCFO runs the risk of potentially including expenses that belong to other campaigns in its final expense reimbursement.

Recommendation 1

We recommend the OCFC and the LFCC ensure that the PCFO follows its internal procedures to ensure that all CFC funds, except for those campaign expenses that are accrued for reimbursement after the close of a campaign, are disbursed by the date required by the CFC Calendar of Events.

Recommendation 2

We recommend that, for those expenses that are accrued for reimbursement after the close of the campaign, that the PCFO follow the guidance included in CFC Memorandum 2008-09 as to how those amounts are to be disbursed once the actual invoice for them is received.

2. PCFO Overcharged for Travel Expenses \$40,081

The PCFO was reimbursed for unreasonable, unallowable, or unsupported travel expenses in the amounts of \$15,318 in 2007, \$12,733 in 2008, and \$12,030 in 2009. It should be noted that although this expense category is called travel expenses, the PCFO also included other types of expenses such as meals and appreciation luncheons in this category, and we have included them in the questioned amounts above. Additionally, the PCFO charged expenses to the wrong campaign in the

amounts of \$8,411 in 2007, \$2,164 in 2008, and \$5,228 in 2009. We are not requiring that these amounts be reallocated to the appropriate campaign since the campaign years in question are already closed.

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 2009 campaign expenses from the funds received for the 2009 campaign.

During our review, we examined travel expenses totaling \$37,301 in 2007, \$20,446 in 2008, and \$40,212 in 2009. Consequently, for the 2007 through 2009 campaigns, we sampled expenses totaling \$97,959 out of a universe of \$140,368. We judgmentally selected this sample by choosing all transactions over \$500, transactions which included a description referencing the LFCC, and transactions posted several months after the incurred date. During our review of these travel expenses, we found numerous transactions which we determined were unallowable or unreasonable and have cited the following as examples:

- Documentation to support the expense was not provided;
- Expenses were charged for events or items that did not directly benefit the campaign. For example:
 1. \$1,095 was charged for Christmas party costs for Loaned Executives;
 2. \$77 was charged for flower arrangements for employees; and
 3. \$400 was charged for chair massages provided by an outside contractor at a Loaned Executive meeting; and,
- Expenses of \$3,766 were charged for lodging and meals for extra days when employees arrived early for a CFC conference or extended their stay after the conference.

Additionally, we found numerous transactions, totaling \$18,161, for the cost of breakfasts and lunches for the Local Application Review Committee (LAC), the LFCC sub-committee that reviews the applications of organizations wishing to participate in the CFC; the cost of lunches for the entire LFCC Board; and the cost of

meals during the Loaned Executive meetings. In fact, our review showed that the PCFO and LFCC frequently provided meals as part of their regular meetings, and charged the costs of these meals to the campaign. Additionally, our review of other meal expenses revealed a culture within the LFCC and the PCFO where the charging of meals as part of the normal course of business was considered to be an acceptable expense to the campaign. However, we believe these costs are unreasonable because they did not provide a direct benefit to the campaign. Furthermore, providing meals during CFC meetings is counterproductive to the CFC goal of collecting the greatest amount of charitable contributions possible.

We determined that the PCFO overcharged \$15,318 in 2007, \$12,733 in 2008, and \$12,030 in 2009, for unreasonable, unallowable, or unsupported travel expenses. As a result of overcharging these expenses during the 2007 through 2009 campaigns, a total of \$40,081 was not properly distributed to charities participating in the CFC for these years. The total amounts questioned in each year by expense category are summarized in the table below.

Questioned Expenses			
<u>Expense Category</u>	<u>2007 Campaign</u>	<u>2008 Campaign</u>	<u>2009 Campaign</u>
Meals Provided During Routine CFC Business Activities	\$4,317	\$6,193	\$7,650
Unallowable Travel Expenses	\$3,232	\$1,568	\$495
Loaned Executive Christmas Party	\$1,095		
Appreciation Luncheons for Loaned Executives	\$1,872	\$1,880	\$3,015
Chair Massages		\$400	
Other Costs not Beneficial to Campaign	\$4,802	\$2,692	\$870
Totals	\$15,318	\$12,733	\$12,030

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

PCFO Comments – Meals at LAC and LFCC Meetings:

The PCFO contends that LFCC/LAC meals are reasonable and allowable campaign expenses. According to the “Proven Practices and New Innovations” Memorandum, which is part of the LFCC Campaign Manual, OPM specifically states that “[a] meal served in conjunction with a campaign event is an allowable expense that may be paid from campaign receipts. The cost would be included in campaign expenses. The LFCC Chair makes decisions about the appropriateness of CFC-sponsored dinners and luncheons.” The PCFO states that the meals in question were provided

during official campaign meetings at which campaign business was transacted, so that work performed by the LFCC and the LAC members, who are volunteers, could be conducted more efficiently, which, in turn, benefits the campaign. For example, during the LAC meetings at issue, LAC members reviewed numerous applications of federations and charities for inclusion in the 2007 through 2009 CFCNCA.

Pursuant to 5 CFR 950.204(e), eligibility determinations must be completed according to a timetable set by OPM. Consequently, the PCFO contends that meals were provided to the LAC in order to allow them to complete their time sensitive work and to provide a minor benefit to these workers, who furnish their time and services without compensation. The per-person average cost of the breakfasts provided to LAC members ranged from \$7.47 to \$8.60, and the average cost of lunches provided ranged from \$12.52 to \$14.50. Additionally, lunches provided at the 2007 through 2009 LFCC board meetings were also minimal and ranged from \$11 to \$13.50 per person.

OIG Response:

The PCFO's comments demonstrate that it has taken the position that *any* event where campaign business is conducted or where campaign staff is involved constitutes a "campaign event", the expenses of which are chargeable to the campaign. The OIG finds this approach to the administration of a campaign extremely disturbing and suspects that most donors would as well. We cannot agree with such a broad interpretation given that the purpose of the campaign is to raise the maximum amount of contributions for participating charities. Under the PCFO's definition of "campaign event", Federal employees' charitable contributions can be used to finance an array of expenses that are clearly not contemplated as being appropriate by the establishing Executive Orders or OPM regulations.

Consequently, we do not agree that meals provided in the course of conducting routine campaign business are allowable campaign expenses. The PCFO contends that because the meals were provided during official campaign meetings and allowed the LFCC and the LAC members to conduct their work in a more efficient manner, that these expenses also benefitted the campaign, making the meals allowable as part of "campaign events."

To further address the PCFO's comments, we asked OPM's OCFC for a definition of what constitutes a "campaign event." According to the OCFC, a "campaign event" is an event that is a special and out-of-the-ordinary occurrence (in other words something outside of the normal operating functions of the campaign). Such events should also be geared toward the raising of monies for the campaign. On this basis, we maintain our position that these meetings do not constitute "campaign events" and the meals included as part of these routine meetings should not be paid for with campaign dollars.

In addition, the PCFO states that “meals were provided to the LAC...to provide a minor benefit to these Campaign workers, who furnish their time and services without compensation.” On the contrary, the LAC members continue to receive their full Federal salary and benefits. They are acting in their official capacity as Federal employees, and this work is considered to be part of their official duties.

Even if one accepted the argument that these expenses were appropriate, the PCFO did not provide sufficient details to justify an operational need to provide meals to the LAC members while completing their application reviews. The simple fact that the CFCNCA, as the largest campaign in the program, has more applications to review than other campaigns does not provide sufficient justification for the expense.

PCFO Comments – Expenses of Certain Events:

The PCFO maintains that meetings and events involving Loaned Executives, CFCNCA staff, and LFCC members at which food was served are allowable campaign expenses. The OIG challenges other campaign meetings and events at which Loaned Executives and others in attendance received meals. At these meetings, the Loaned Executives received training, exchanged information with campaign staff and volunteers about the progress of the campaigns, or were thanked and honored for their service on behalf of the CFCNCA. The PCFO contends that the cost of these meals is allowable because campaign business was conducted at these events, which benefits the CFC. With the exception of the end of campaign thank-you events, the average cost per person of the lunches was less than \$20, in some cases, far less. The end of campaign thank-you lunches held once each season averaged around \$50 per person.

The PCFO states that the lunches are important morale boosters to a critical constituency that has been integral in making the CFCNCA successful. OPM has stated that award ceremonies are appropriate and that costs related to them are legitimate campaign expenses. In fact, in CFC Memorandum 2008-09, OPM has mentioned that award ceremony costs are reimbursable campaign expenses. As there is no OPM guidance precluding the amounts spent, in the judgment of the PCFO, these amounts were reasonable.

Additionally, the OIG challenged the cost of a 2007 campaign Christmas party held for the Loaned Executives. The PCFO stated that this party provided an opportunity for the campaign to thank the Loaned Executives for their work and motivate them to continue their work through the end of the campaign. Again, as no guidance against such an event has been issued by OPM, in the PCFO's judgment, this event was appropriate and reasonable.

OIG Response:

Again, we do not agree that meals provided in the course of conducting routine campaign business, at end of the year campaign thank-you luncheons, and at a

Christmas party for the Loaned Executives are allowable campaign expenses for the reasons expressed above.

The appreciation luncheon in question occurred during the 2007 campaign and totaled \$3,560, which amounted to an average cost per person of approximately \$51. This cost is both unreasonable and excessive, in addition to being redundant since the campaign also held a finale event, where campaign workers were again recognized and rewarded. According to the OCFC, one thank-you lunch is an acceptable campaign expense, but it does not see a need for or the benefit of multiple thank-you lunches, unless the lunches were to thank different groups of people. It is for this reason that we also disallowed the appreciation lunch of \$1,880 charged to the 2008 campaign and the lunch of \$3,015 charged to the 2009 campaign.

The PCFO contends that the Christmas Party for the Loaned Executives provided an opportunity to thank the Loaned Executives for their work and to motivate them to continue their work through the end of the campaign. While we agree that CFC regulations and guidance from OPM are silent as to these types of events, we do not see how this type of event addresses the campaign's primary aim of collecting the greatest amount of charitable contributions possible.

Furthermore, as we noted above, the Loaned Executives are not campaign "volunteers". In fact, they are not volunteers at all. They are Federal employees who are temporarily assigned, on a full time basis, to the CFCNCA and continue to receive their regular salary and benefits from their employing Federal agencies during this time. Work related to the CFCNCA is simply part of their official duties. Consequently, the argument that these Federal employees need "morale boosters" because they serve without compensation is without merit.

PCFO Comments - Travel and Conference Expenses:

The PCFO claims that expenses related to attendance by CFCNCA staff and LFCC members at OPM CFC-related conferences are allowable campaign expenses. The OIG questioned a variety of expenses incurred by the CFCNCA staff and LFCC representatives related to days immediately before and after their attendance at annual OPM conferences. The PCFO contends that these charges are allowable, as the CFCNCA staff and LFCC representatives were involved in organizing and conducting portions of the conferences, which explains why they needed to arrive early or stay late. In a few instances, CFCNCA staff and LFCC representatives not involved in conference organizing and planning arrived early to attend an evening reception and/or to ensure prompt attendance at the beginning of the conference. As such, the questioned lodging fees, taxi expenses, and excess baggage costs connected with this travel were also allowable expenses.

Furthermore, the OIG challenged hotel expenses associated with the 2007 CFC conference that included in-room hotel charges for a CFCNCA staff member and the cost of a dinner attended by other CFC campaign representatives at which

comparative campaign practices nation-wide were discussed. Again, these charges should be allowable as they were incurred in connection with and benefitted the campaign. Finally, the OIG asserted that the PCFO incorrectly charged some of the 2007 through 2009 conference expenses to the wrong campaign. Following generally accepted accounting principles (GAAP), the PCFO charged the active campaign at the time that the expenses were incurred, and no regulations or guidance from OPM indicates that this practice is incorrect. In any event, even if the PCFO is found to have been incorrect in its practices, the appropriate remedy would be a reallocation of the expense to the correct campaign and not disallowing the expense in total.

OIG Response:

With one exception, we disagree with the PCFO's position that travel expenses related to days immediately before and after attendance at annual OPM conferences are allowable campaign expenses. The CFC workshops held during the 2007 through 2009 campaigns did not kick off until the early afternoon of the first day, which should give most attendees plenty of time to arrive for the start of the conference without having to arrive the day before, even if they are first day presenters. We did allow the travel expenses related to one employee's early arrival charged to each campaign after confirming the legitimate need to arrive early. As to the expenses charged to the campaign for days following the conferences, we do not understand the justification that would warrant this type of expenditure.

Additionally, we disagree with the PCFO's position that certain expenses associated with in-room hotel charges for a CFCNCA staff member and the cost of a dinner attended by other CFC campaign representatives at which comparative campaign practices nation-wide were discussed should be allowable costs. The in-room meals were questioned because they were incurred before the start date of the conference. The cost of the dinner was questioned because it was a large amount, and, as the PCFO admitted in its response, was attended by other CFC campaign representatives. The costs related to the other campaign representatives' meals should have been absorbed by their respective campaigns.

Again, we do not believe that the excessively broad definition used by the PCFO regarding reimbursable expenses (i.e., those that relate in any way to campaign business or which involve a CFCNCA staff member, Loaned Executive, or LFCC member) transforms these expenses into allowable or reasonable costs to be charged to the campaign.

Finally, the PCFO contends that expenses that we identified as being charged to an incorrect campaign should be reallocated to the correct campaign instead of being disallowed in total. It states in its response to the draft report that it followed GAAP and, thus, charged the active campaign at the time that the expenses were incurred, and no regulations or guidance from OPM indicates that this practice is incorrect. We completely disagree with this statement. 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 2009 campaign expenses from the funds received for the 2009 campaign. As a campaign period extends over almost two years, expenses should be charged to the campaign to which they relate and not to the campaign active at the time the expense was incurred, because multiple campaigns can be open at various points in time during each campaign period. That being said, since the campaigns in question are now closed, we are not recommending that the amounts charged to an incorrect campaign be returned to the appropriate campaign.

PCFO Comments – Minor Expenses to Boost Morale:

The PCFO contends that minor expenses to boost CFCNCA morale are allowable campaign expenses. The OIG identified expenses related to flowers provided to a departing CFCNCA staff member and “graduation items” related to a Loaned Executive training event that were disallowed in the draft report. However, these expenses were incurred in connection with campaign business and are within the discretion of CFCNCA management to promote good will among staff and volunteers, which, thereby, benefits the campaign and makes them legitimate campaign expenses. Additionally, the OPM Proven Practices Memorandum states that CFCs should “celebrate the[ir] achievement[s] through appropriate PR, including the use of trinkets “to acknowledge the accomplishment.”

OIG Response:

With one exception, we disagree with the PCFO's position that minor expenses to boost morale are allowable campaign expenses. The PCFO identified \$77 for flowers provided to a departing CFCNCA employee and \$51 in “graduation items” related to a Loaned Executive training event as allowable expenses under this category. While we concur that the \$51 is an allowable campaign expense and have removed it from our questioned costs, we do not agree that the \$77 paid for flowers is an expense that benefits the campaign and assists in collecting the greatest amount of charitable contributions possible, which, as mentioned previously, is the primary aim of the CFC.

Additionally, we again have concerns regarding the PCFO's stance that it is appropriate to use CFC charitable contributions to pay for any expense related either to campaign business, in the broadest sense of the term, or to any work in which a CFCNCA employee or Loaned Executive is involved. Furthermore, we repeat our belief that the argument regarding the need for additional motivation for Loaned Executives is without merit.

One could also question whether these types of perks plus the meals and gifts provided to these individuals violate the ethics rules in place at their represented Federal agencies. It should be noted that the OCFC recently issued CFC Memorandum 2011-07 that addresses this issue. While the Memorandum does not

apply to campaign years under this audit, its guidance should be followed for current and future campaigns.

PCFO Comments – Itemization of Expenses:

The OIG questioned \$658 in travel and meeting expenses for receipts that were not itemized or did not have supporting documentation. However, OPM regulations do not require itemized receipts for expenses regardless of amount per 5 CFR 950.105(d)(7), which requires itemized receipts “to the extent possible”. The expense description was included on the credit card bill and reviewed by appropriate supervisors. Furthermore, the expenses were related to costs associated with an OPM conference and are, therefore, a direct benefit to the campaign.

OIG Response:

We do not agree with the PCFO's contention that \$658 in travel and meeting expenses that were not itemized or did not have supporting documentation should be allowable campaign expenses. The PCFO cites 5 CFR 950.105(d)(7), which requires that they maintain a detailed schedule of its actual CFC administrative expenses with, to the extent possible, itemized receipts for the expenses. However, 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. An expense description on a credit card statement is not sufficient for us to determine whether or not the cost is a valid campaign cost, especially since the PCFO participates in other campaigns, and the amount in question is of a sufficient level to warrant documentation supporting its cost.

This is an example of the PCFO's disturbing tendency to interpret the OPM CFC regulations in a manner that minimizes accountability on the part of the PCFO. It frequently emphasizes the phrase “to the extent possible” rather than the substance of the regulation, which calls for the PCFO to maintain a detailed schedule of CFC expenses. The PCFO is in a position of trust vis-à-vis the campaign. This responsibility warrants that it be held accountable for complying with the spirit and intent of the regulations.

PCFO Comments – Allocation of Expenses to Campaigns:

The PCFO claims that charges questioned by the OIG as having been booked to the wrong campaign were, in fact, charged to the appropriate campaign. They state that OPM's OCFC has provided no guidance regarding the year for which an expense not clearly relating to a particular campaign must be charged. The PCFO followed GAAP in booking expenses to the campaign year in which they were incurred. Even if the OIG was correct that one or more expenses were charged to the wrong campaign, the appropriate remedy would be to reallocate the expense to the appropriate campaign, not to require the PCFO to repay the expense.

OIG Response:

We disagree with the PCFO's position. As mentioned above, 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 2009 campaign expenses from the funds received for the 2009 campaign. As a campaign period extends over almost two years, expenses should be charged to the campaign to which they relate and not to the campaign active at the time the expense was incurred, because multiple campaigns can be open at various points in time during each campaign period. That being said, since the campaigns in question are now closed, we are not recommending that the amounts charged to an incorrect campaign be returned to the appropriate campaign.

PCFO's Comments – Documentation of De Minimis Transactions:

The PCFO contends that it is not required to maintain primary documentation for de minimis transactions. In many instances, the OIG challenged the primary documentation receipts for certain expenses, mostly involving meals. The PCFO contends that no CFC regulation or OPM guidance requires receipts for de minimis travel expenditures. 5 CFR 950.105(d)(7) states that PCFOs must “maintain[] a detailed schedule of its actual CFC administrative expenses with, to the extent possible, itemized receipts for the expenses.” Consequently, the regulation contemplates that PCFOs need not require receipts in all circumstances. For example, under the Internal Revenue Service (IRS) guidelines, the PCFO need not require CFCNCA staff to file such receipts if their charges are less than the amount threshold set by the IRS. In other instances, the OIG states that, while receipts were provided for expenses, they were insufficient to allow the related cost. The PCFO contends that the documentation provided to the OIG to support these expenses is sufficient to establish that the meals were incurred during the conduct of the campaign and are, therefore, allowable campaign expenses.

OIG Response:

We do not agree that the PCFO does not need to maintain documentation to support expense amounts that fall below the IRS threshold. As mentioned previously, 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. Without documentation supporting the purpose of the expense, we cannot verify whether the expense is a valid campaign expense. This becomes especially important when the PCFO participates in multiple campaigns and we need to ensure that the campaign being audited is only charged its fair share of the cost.

Furthermore, we repeat our concern regarding the PCFO's interpretation of this regulation, which fails to focus on the purpose of the regulation – requiring transparency on the part of the PCFO with regard to its expenses.

PCFO Comments – Expenses Not Benefitting the Campaign:

The PCFO does concur that the following expense transactions did not provide a sufficient benefit to the CFCNCA to justify their legitimacy as a valid campaign expense.

1. For the 2007 campaign, charges by a CFCNCA staff member for dry cleaning, movie rentals, and gift shop purchases totaling \$69;
2. For the 2007 campaign, charges by a CFCNCA staff member for a Mardi Gras tour while attending a CFC conference totaling \$17;
3. For the 2007 campaign, charges by a CFCNCA staff member for attending a non-CFCNCA award ceremony sponsored by a third party organization totaling \$521;
4. For the 2007 campaign, charges by a CFCNCA staff member for a movie rental while on travel for the campaign totaling \$16;
5. For the 2007 campaign, charges by a CFCNCA staff member for a movie rental for an undetermined amount while on travel for the campaign;
6. For the 2007 campaign, charges by a CFCNCA staff member for driving to a CFC conference in Orlando, Florida rather than flying. The CFCNCA staff member was reimbursed a total of \$957, but should only have been reimbursed for the total costs of an airline ticket, baggage fees, and any local transportation charges;
7. For the 2008 campaign, charges by a CFCNCA staff member for neck massages for Loaned Executives, totaling \$400, to alleviate stress during a particularly intense time in the campaign. PCFO upper management determined early in 2009 that this type of perk did not portray the appropriate image for a public charity fundraising campaign and should stop; and,
8. For the 2009 campaign, charges by a CFCNCA staff member for a movie rental while on travel for the campaign totaling \$31.

The PCFO intends to review with the campaign staff the kinds of expenses identified above to ensure that they do not occur in the future.

OIG Response:

We concur with the PCFO's position on the expense items in this category and agree that \$1,054 directly identified as unallowable charges by the PCFO was inappropriately charged to the related campaigns.

Recommendation 3

We recommend that the PCFO distribute \$40,081 as undesignated funds to the charities participating in the 2010 campaign.

Recommendation 4

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

Recommendation 5

We recommend that the LFCC establish policies and procedures requiring a more detailed budget and expense review to ensure that it only approves allowable and reasonable campaign expenses.

Recommendation 6

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.

3. PCFO Overcharged for Campaign Expenses \$268,739

The PCFO was reimbursed for unreasonable, unallowable, or unsupported expenses in the amounts of \$81,640 in 2007, \$80,958 in 2008, and \$106,141 in 2009. Additionally, the PCFO charged expenses to the wrong campaign in the amounts of \$39,605 in 2007, \$49,076 in 2008, and \$22,366 in 2009. We are not requiring that these amounts be reallocated to the appropriate campaign since the campaign years in question are already closed. Finally, we identified \$764,069 related to training events, CFCNCA conferences, design and marketing services, software applications and licensing fees, appreciation luncheons, and finale events that could have been put to better use.

According to the CFC regulations at 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 2009 campaign expenses from the funds received for the 2009 campaign.

We examined a sample of campaign expenses, not including travel, salary, or indirect expenses, totaling transaction amounts of \$2,273,185 in 2007, \$2,541,549 in 2008, and \$2,190,970 in 2009. Consequently, for the 2007 through 2009 campaigns, we sampled expenses totaling \$7,005,704 out of a universe of \$7,405,053. We judgmentally selected this sample based on transactions with high dollar amounts, nomenclature, or items which appeared to be unreasonable charges to the campaign, based on the nature of the expense. During our review of these expenses we found numerous transactions which we determined to be unallowable or unreasonable and have cited the following as examples:

- Cost was not beneficial to the campaign or could not be supported - \$163,949;
- Washington by Night Tour for the Loaned Executives - \$1,159;
- Private Box, mascot visit, and group tickets cost for a Washington Nationals baseball event - \$11,315;
- Jazz band costs at a leadership conference - \$1,500; and
- Chair massages provided by an outside contractor during a Wellness Fair - \$280.³ According to the PCFO, these massages were provided to Loaned Executives.

Additionally, we found numerous transactions for the cost of meals for the CFCNCA staff and Loaned Executive status report luncheons, and other campaign meetings, totaling \$84,343, which appeared to provide no benefit to the campaign.

Providing meals during routine CFC meetings does not contribute to achieving the CFC goal of collecting the greatest amount of charitable contributions possible. The total amounts questioned in each year by expense category are summarized in the table below.

³ The chair massages included in this audit issue is an additional transaction to the \$400 in chair massages that were questioned previously.

Questioned Expenses			
<u>Expense Category</u>	<u>2007 Campaign</u>	<u>2008 Campaign</u>	<u>2009 Campaign</u>
Meals Provided During Routine CFC Business Activities	\$18,764	\$36,919	\$28,660
Loaned Executive Tour of Washington	\$1,159		
Campaign Kick-Off Event	\$11,315		
Jazz Band at CFC Leadership Conference	\$1,500		
Training/Conferences		\$169	
Questionable Allocation Methods	\$5,439		\$584
Chair Massages	\$280		
Other Costs not Beneficial to Campaign	\$43,183	\$43,870	\$76,897
Totals	\$81,640	\$80,958	\$106,141

As a result of overcharging these expenses during the 2007 through 2009 campaigns, a total of \$268,739 was not properly distributed to charities participating in the CFC for these years.

Finally, we identified the following expenses that, while the types of expenses are legitimate campaign expense categories, the amounts spent were excessive in nature and could have been more effectively spent so that more campaign dollars raised went to the participating charities that desperately needed these funds. Specifically, we identified the following:

- Costs related to training and conferences - \$208,169;
- Costs related to design and marketing services - \$30,250;
- Costs related to appreciation luncheons and finale events - \$153,150; and
- Costs related to software applications and licensing agreements for systems owned by Global Impact when more cost effective systems that produce the needed documentation are available - \$372,500

The total amounts questioned in each year by expense category are summarized in the table below.

Questioned as Better Use of Funds				
<u>Campaign Year</u>	<u>Training and Conferences</u>	<u>Design and Marketing Services</u>	<u>Appreciation Luncheons for Loaned Executives/Finale Events</u>	<u>Software Applications and Licensing Agreements</u>
2007	\$76,034		\$49,892	
2008	\$4,000		\$50,881	\$247,500
2009	\$128,135	\$30,250	\$52,377	\$125,000
Totals	\$208,169	\$30,250	\$153,150	\$372,500

In total, we identified \$764,069 in funds that could have been put to better use by the PCFO, which would have resulted in distributing additional monies to the participating charities.

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

PCFO Comments – Provision of Meals:

The PCFO contends that the OIG is wrong as a matter of fact and law in asserting that the expenses identified in this section are unallowable. The draft report challenges meals provided to campaign workers and volunteers while CFCNCA business was conducted. The OIG asserts that the meals provided no direct benefit to the campaign and that such meals are counterproductive to the campaign's goal of collecting the greatest amount of charitable contributions possible. However, OPM instructs CFC's that meals and similar expenses are allowable. In fact, OPM's "Proven Practices and New Innovations" Memorandum states:

A meal served in conjunction with a campaign event is an allowable expense that may be paid from campaign receipts. The cost would be included in campaign expenses. The LFCC Chair makes decisions about the appropriateness of CFC-sponsored dinners and luncheons.

The OIG also misunderstands how successful fundraising campaigns are conducted. Campaign volunteers donate their time and services to the CFC. Consequently, they should be recognized, honored, thanked, and motivated to continue to put forth their best efforts in soliciting potential donors to make financial contributions to participating charities. Providing meals, entertainment, and other reasonable accoutrements is critically important in conducting a successful campaign. In fact, the PCFO has an excellent record of raising campaign funds while keeping expenses below CFC national averages. For each of the campaign years under audit, the PCFO spent the following:

1. Less than 9 percent of campaign revenue on expenses in 2007;
2. Less than 8.1 percent of campaign revenue on expenses in 2008;
3. Less than 7.4 percent of campaign revenue on expenses in 2009; and
4. Less than 7 percent of campaign revenue on expenses in 2010.

Consequently, the PCFO contends that the OIG is incorrect in its assertions as to how to raise the most money possible for participating charities. Moreover, its recommendations that the PCFO repay the campaign expenses identified in the draft report are arbitrary, capricious, unreasonable, and contrary to law.

OIG Response:

As mentioned previously, we do not agree that meals provided to campaign workers and volunteers in meetings where CFCNCA business was conducted are allowable campaign expenses. To support its position, the PCFO cites an OPM Proven Practices Memorandum which states that meals served in conjunction with a campaign event are an allowable expense. To address the PCFO's comments, we looked to the OPM's OCFC for a definition of what constitutes a "campaign event." According to the OCFC, a "campaign event" is an event that is a special and out-of-the-ordinary occurrence (in other words something outside of the normal operating functions of the campaign). Such events should also be geared toward the raising of monies for the campaign. Consequently, based on this definition of campaign event, we maintain our position that these meetings do not constitute "campaign events" and the meals included as part of these routine meetings should not be paid for with campaign dollars.

The PCFO also asserts that the OIG misunderstands how successful fundraising campaigns are conducted and makes the following statement:

"Campaign volunteers donate their time and services. They must be recognized, honored, thanked, and motivated to continue to do so and to solicit potential donors to make financial contributions to beneficiary charities. Providing meals, entertainment and other reasonable accoutrements...is critically important in conducting a successful CFC campaign."

These comments reflect that the PCFO itself misunderstands the nature of the role and status that Federal employees play when working for a campaign. Federal employees serving as LFCC members or Loaned Executives are not "donating" their time and services. To the contrary, their work on the CFC is considered part of their official duties for which they receive their Federal salaries. Consequently, the argument that the additional motivation of which the PCFO speaks is "critically important" is without merit.

An additional matter raised by the PCFO is that it has an excellent record of raising campaign funds while keeping expenses below CFC national averages. While the PCFO may have kept expense percentages below CFC national averages, and a campaign of this size would necessarily have more expenses than an average-sized campaign, we believe its costs for its size were higher than they needed to be to successfully perform its required duties.

In any case, the PCFO's overall administrative costs have no bearing on whether a specific expenditure is adequately supported and/or is an allowable expense.

PCFO Comments – Training Expenses:

The PCFO maintains that campaign staff and volunteer training expenses, including meals and entertainment provided in connection therewith, are allowable campaign costs. 5 CFR 950.105(d)(3) requires the PCFO to train its loaned executives and other campaign workers in methods of non-solicitation and other aspects of campaign operations, and this training must be separate from training given for other types of campaign drives. To meet this requirement, the PCFO provides two large training events at the beginning of each campaign season. The Campaign Leadership Conferences train the hundreds of Key Workers, campaign managers, and others in performing necessary tasks in an all day session. The PCFO also trains its Loaned Executives in an intensive two full week session.

In its draft report, the OIG questions expenses related to the Campaign Leadership Conferences. The questioned expenses relate to the cost of using a local hotel at which over 600 campaign volunteers were trained. Because the conference lasted a full day, the PCFO felt it was appropriate to provide refreshments and after-conference entertainment as a way of thanking the volunteers for their attendance and participation, and to ensure that the volunteers had a positive experience during the training so that they would be motivated to solicit donations on behalf of the CFC. This type of event is also specifically encouraged in OPM's Proven Practices Memorandum.

The OIG also questions costs related to the two-week intensive training provided to the Loaned Executives, including the costs for the trainer's fees, food and beverages, mugs provided to the training participants, an evening tour of Washington, D.C., and the cost of the breakout conference rooms in which small groups of trainees met to receive training on particular topics. The CFCNCA depends heavily upon enthusiastic Loaned Executive participation in the campaign, as they are the primary contact between Federal agencies and the CFC. Consequently, the PCFO must find appropriate ways to thank and motivate these individuals.

Finally, the OIG challenges expenses related to CFCNCA staff training, which was approved by the LFCC. Staff training benefits the CFC, in that campaign workers perform their job duties more effectively. As such, the expenses related to classes on grammar and proofreading for a CFCNCA employee are allowable.

OIG Response:

We concur with the PCFO's position that it is required to train its Loaned Executives and other campaign workers, and we are not opposed per se to the training events and conferences it held during the 2007 through 2009 campaign years. However, during the 2007 through 2009 campaigns, the PCFO spent \$208,169 on these types of events, most of which were held in rather expensive hotels (e.g., the Grand Hyatt Hotel) or conference centers (e.g., the Marriott Georgetown Conference Center).

Consequently, we are concerned with the excessiveness of the costs related to these events and contend that these monies could have been put to better use for campaign purposes, to include the distribution of more funds to participating charities.

However, since the CFC regulations and OPM guidance do not require specific locales for training and conference events, we are not recommending that the PCFO reimburse the campaign for these costs. We would, however, encourage the PCFO to look at more cost effective venues for these types of events for future campaigns.

We are questioning the \$1,500 spent for jazz band entertainment at a Campaign Leadership Conference and \$1,159 spent on a tour of Washington for the Loaned Executives provided as after-conference entertainment. The PCFO contends that providing refreshments and entertainment to thank the volunteers for their training attendance and participation, and to ensure they have a positive experience during the training, are appropriate costs. Once again, the OIG believes that the Federal salary and benefits earned by these Federal employees is sufficient motivation for performance of their official duties. The PCFO should not use campaign funds to offer additional incentives.

Additionally, one could also question whether these types of perks provided to these individuals violate the ethics rules in place at their represented Federal agencies. It should be noted that the OCFC recently issued CFC Memorandum 2011-07 that addresses this issue. While the Memorandum does not apply to campaign years under this audit, its guidance should be followed for current and future campaigns.

Finally, we disagree that expenses related to grammar and proofreading training for a CFCNCA employee are legitimate campaign costs since these types of courses have nothing to do with supporting the core mission of the CFC and should have been paid for out of the PCFO's own funds.

PCFO Comments – Campaign Promotional Events:

The PCFO claims that expenses related to campaign promotional events are allowable campaign costs. In its draft report, the OIG questions or challenges a wide variety of expenses that OPM itself encourages. The OPM Proven Practices Memorandum states **“Campaign kickoffs, progress reports, awards, victory events, and other non-solicitation events to build support for the campaign are strongly encouraged. Most successful campaigns have all or some of these kinds of events.”**

At issue in the draft report is a 2007 campaign kick-off event, which began with an event at a Washington Nationals baseball game and continued the following day in a conference during which volunteers and workers were briefed on campaign mechanics and proper solicitation methods. This event was held to have been successful and was a key component to the success of the campaign, as evidenced by the awarding of an Innovator Award to the PCFO by OPM. In fact, in explaining why the award was given, OPM stated that the PCFO had “implemented a creative strategy to fuel its \$60 million [fundraising] goal.” OPM continues:

“[T]he campaign kickoff was held at a Washington Nationals baseball game. Prior to the game, Admiral Thad Allen, Commandant of the U.S. Coast Guard and CFC Honorary Chairman, threw the ceremonial first pitch in honor of the 2007 campaign. The Coast Guard provided the anthem singer, color guard and a Coast Guard rescue helicopter flyover. More than 600 campaign managers, loaned executives, key workers and friends attended the event... The Nationals mascot, Screech, was present at the CFC-NCA Leadership Conference as well as numerous agency kickoffs and rallies.

The campaign theme has given Federal agencies and departments great latitude when it came to marketing their fund drives. But just as importantly, it provided them with an excellent opportunity to interject fun and enthusiasm in their campaigns.”

The CFC regulations at 5 CFR 950.105(b) specifically mention kick-off events. The event is designed “to thank and motivate key volunteers and staff for the work they will do during this year’s campaign [and] ... provide[] a higher profile launch [for the Campaign] with media possibilities.”

Additionally, the OIG challenged costs related to a Loaned Executive award ceremony. These ceremonies are specifically authorized at 5 CFR 950.105(d)(11) and in CFC Memorandum 2008-09. Moreover, OPM itself holds an annual CFC awards ceremony, at which food and beverages are provided. Consequently, the PCFO strongly disagrees that the costs related to the awards ceremonies it hosts for CFC participants are unallowable. Similarly, the OIG challenged the expenses associated with a CFC finale event, which is an award ceremony that is held at the conclusion of each campaign year to thank and honor the numerous volunteers, Key Workers, campaign managers, Loaned Executives, and the LFCC members. The PCFO contends that this type of event is authorized by the CFC regulations and OPM guidelines.

OIG Response:

We acknowledge that campaign kick-off events, when held for the purposes of encouraging campaign participation, are legitimate campaign costs. However, by its own admission, the PCFO states in its response that the event was designed “to thank and motivate key volunteers and staff for the work they will do during this year’s

campaign...” We do not see how an event designed to thank and motivate key volunteers and staff drives campaign participation. However, if the PCFO had reached out to the Federal agencies and encouraged Federal employees who were potential donors to attend this game to publicize the CFC, then we would have allowed the cost for this event. As such, we are continuing to question the \$11,315 for this event, which consists of \$2,325 for a private box at the game; \$6,620 for 600 tickets; \$300 for a visit from the mascot; and \$2,070 for food at the event, of which \$394 was spent on alcohol.

We also acknowledge that costs spent on award ceremonies and campaign finale events are legitimate campaign costs. However, we are concerned about the excessiveness of the costs that the PCFO incurred for these events. Specifically, the PCFO spent the following on finale events cited in its response:

1. \$49,892 for a 2007 finale event held at the Ronald Reagan building;
2. \$50,881 on a 2008 finale event held at the Grand Hyatt Hotel; and
3. \$52,377 on a 2009 finale event held at the Grand Hyatt Hotel.

Because award ceremonies and finale events are, in our opinion, categories of acceptable campaign expenses, we are not requiring that the PCFO return these monies to the campaign. However, as the goal of the CFC is to collect the greatest amount of charitable contributions possible, we would strongly encourage the PCFO to look for more cost effective venues for holding these types of events so that more campaign dollars raised go to the participating charities that desperately need these funds.

PCFO Comments – Progress Report Meetings:

The PCFO contends that expenses related to report luncheon meetings are allowable campaign costs. Throughout each campaign, the PCFO conducts luncheon meetings so that campaign information can be exchanged among Loaned Executives, campaign volunteers, and CFCNCA staff. The OPM Proven Practices Memorandum specifically encourages these types of “progress reports” to help “...build support for the campaign”. It further states that “[m]ost successful campaigns have all or some of these kinds of events”. The OIG appears to seek to apply the General Accountability Office's rulings that meals are not normally provided to Government workers during meetings. However, the CFC is not a Federally financed program. Instead, it relies principally on donated time and services of Federal employees, who do so above and beyond their regular work duties. Because the CFC is not a Federally financed program, appropriated tax dollars are not a substantial source for the CFC's operational budget. Consequently, the expenses incurred in relation to these meetings are necessary to promote meeting attendance as well as the overall success of the campaign. Moreover, it would be arbitrary and capricious if the OIG

attempted to recover money for these costs since there has never been any prohibition against such expenditures.

Finally, the decision to serve lunch and similar accoutrements at strategy meetings before commencement of the 2007 and 2009 campaigns and at mid-campaign report gatherings during which issues related to the ongoing campaign are discussed is appropriate, because such meetings contribute to the success of the campaign. Moreover, because the LFCC approves the budget items related to these events, the expenses actually incurred are thus allowable.

OIG Response:

While we do not have concerns with the PCFO conducting luncheon meetings so that campaign information among Loaned Executives, campaign volunteers, and CFCNCA staff can be exchanged, we do not agree that the cost of meals provided at these luncheons is a legitimate campaign expense. To support its position, the PCFO states that because the CFC is not a Government financed program it must rely principally on the donated time and services of Federal employees, who do so above and beyond their regular work duties. As we noted above, this is an incorrect characterization of the status of Federal employees that participate in the administration of the CFC. Attendance at such meetings is part of these Federal employees' official duties, for which they receive salaries and benefits that *are* paid for with appropriated funds. In this context we do not believe that use of campaign funds to provide additional "motivation" is either necessary or proper. Consequently, we are continuing to question the costs of these meals, which include the following:

1. \$18,169 for a 2007 report luncheon;
2. \$33,834 for 2008 report luncheons; and
3. \$18,900 for a 2009 report luncheon.

PCFO Comments – Campaign Operational Expenses:

The PCFO maintains that expenses related to campaign operations are allowable campaign costs. The OIG questioned the cost of CFCNCA break room supplies. The provision of plastic utensils, plates, coffee, and cream and sugar for CFCNCA staff is a reasonable campaign expense. These kinds of supplies exist in virtually all office environments, including non-profit and Government offices. These kinds of items promote efficiency in the office environment, so that the employees do not need to leave the office when they need these supplies. They also promote a positive working environment by offering a common space for staff to socialize during break times.

OIG Response:

We agree that office break room supplies are reasonable campaign expenses. However, we are still questioning these items because, while they were billed to the PCFO, it appears that they were charged 100 percent to the CFCNCA instead of being allocated between the CFCNCA and the other charitable campaigns conducted by the PCFO.

PCFO Comments – Allocation of Accounting Issues:

The PCFO contends that it properly accounted for and allocated a questioned CFCNCA expense. The OIG questioned why a March 31, 2008, accrual, totaling \$55,871, was allocated to the 2007 campaign. The allocation was made to the 2007 campaign on the last day of the solicitation period for that campaign, to reflect the anticipated amount of costs for the 2007 campaign award ceremony, which was held later in 2008. Only \$7,618 was ultimately expended and the difference, \$48,254, was later reversed.

OIG Response:

While we concur that \$55,871 was properly accrued and then subsequently reversed, we have concerns with the PCFO's process of charging the active campaign at the time that the expense is incurred. 5 CFR 950.106(b) states that the PCFO may only recover campaign expenses from receipts collected for that campaign year. In other words, the PCFO may only be reimbursed for its 2007 campaign expenses from the funds received for the 2007 campaign. As a campaign period extends over almost two years, expenses should be charged to the campaign to which they relate and not to the campaign active at the time the expense was incurred, because multiple campaigns can be open at various points in time during each campaign period.

PCFO Comments – Agreement Regarding Certain Expenses:

The PCFO agreed that the following identified expenses were not reasonably incurred on behalf of the CFCNCA or are otherwise unallowable.

1. A 2007 expense for \$280 worth of chair massages to Loaned Executives to reward their hard work. This type of benefit has since been cancelled because it does not portray an appropriate image for a public charity fundraising campaign;
2. A 2007 expense where a CFCNCA staff member accidentally voided a disbursement to a participating charity, thereby incurring a \$6 bank charge. Because the error was made by a CFCNCA staff member, it should not have been paid by the campaign;

3. A 2008 expense where third party invoices were paid late, causing fees in the amounts of \$207, \$8, and \$10. Because these were errors caused by campaign staff members, the late fees should not have been paid by the campaign; and
4. A 2009 expense where only 50% of the cost should have been charged to the CFCNCA. Therefore, \$31 should not have been paid by the campaign.

OIG's Response:

We concur with the PCFO's position on the expense items in this category and agree that \$542 directly identified as unallowable charges by the PCFO was inappropriately charged to the related campaigns.

Recommendation 7

We recommend that the PCFO distribute \$268,739 as undesignated funds to the charities participating in the 2010 campaign.

Recommendation 8

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

Recommendation 9

We recommend that the LFCC establish policies and procedures requiring a more detailed budget and expense review to ensure that it only approves allowable and reasonable campaign expenses.

Recommendation 10

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

4. Improper Accounting for Campaign Expenses by PCFO Procedural

The PCFO's accounting policies and procedures allowed for the reimbursement of accrued costs as well as actual costs, which could potentially result in overcharges to the campaign and limit the amounts disbursed to the participating charities.

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. The regulation does not state that accrued or estimated campaign expenses are allowed costs to the campaign.

During our review of the PCFO's campaign expenses for the 2007 through 2009 campaigns, we found that a total debit amount of \$35,000 was accrued for audit fees. There were no credits to show an adjustment. The invoice provided by the PCFO showed that the actual cost of the audit fees for the 2007 campaign was \$31,154. However, the PCFO was reimbursed for the general ledger's ending balance as part of its reimbursement for campaign expenses. Therefore, the PCFO was reimbursed for the accrued amount of \$35,000 instead of the actual expense. In addition to the audit fees, our review also noted other accruals in each campaign that were likely reimbursed in a similar manner.

Ultimately, accruals should not be included as part of the actual expenses because the PCFO is only allowed to be reimbursed for its actual expenses. As a result of the PCFO being reimbursed for accrued expenses, they are not in compliance with 5 CFR 950.106(a).

PCFO Comments:

The PCFO contends that the OIG reached mistaken conclusions based on its misunderstanding of its accounting system. Because the OIG did not fully understand the PCFO's application of GAAP, it concluded that it "could not determine that the PCFO properly accounted for its campaign expenses for the 2007 through 2009 campaigns. The PCFO utilizes a standard accrual based accounting system. In accounting for CFCNCA expenses, there are generally three types of accruals.

- Anticipated expenses for vendor invoices that have not yet been received are accrued and then are corrected to reflect actual expenses when the PCFO receives the invoice, thereby creating a credit in the expense accounts that were charged for the anticipated expenses. The estimated accrued expenses are, consequently, zeroed out and the actual expenses are included.
- Major expenses are amortized monthly so that the financial statements early in the year are not misleadingly large.
- Audit fees for the campaign; expenses for the processing of campaign receipts and the distribution of money to charities; and other necessary expenses, where payments will be made between the end and the close-out of a campaign, are estimated and accrued. The initial estimates are performed on a department by department, vendor by vendor basis and are as close to accurate as possible, but, ultimately, are adjusted to actual cost prior to the campaign close-out.

Each of the above bullet points reflects the application of customary, generally accepted accounting practices that the PCFO's IPA have deemed are fully consistent with GAAP. In addition, the methods noted in the bullet points above are also fully compliant with CFC Memorandum 2008-09.

In estimating its audit fees for the audit of the 2007 campaign, the PCFO accrued \$35,000 and subsequently received an invoice from the IPA for \$31,154. However, before the 2007 campaign close-out, the PCFO was notified that OPM would be conducting an audit of the 2007-2009 work papers. Consequently, instead of adjusting the accrued amount to an actual cost and transferring the difference to the undesignated contributions of the campaign, the PCFO, assuming that there would be additional IPA audit fees due to the OPM audit, left the original accrual in place until it received the IPA's final bill on August 3, 2010. After payment of the IPA's final bill, a difference of \$1,785 between the accrued amount and the actual cost remained which was used to offset an expense overage on a subsequent campaign. The PCFO contends that this method of accounting for expenses is fully consistent with CFC Memorandum 2008-09, which stated, "If the cost is less than the amount withheld and the difference is less than one percent of the gross pledges for the campaign audited, the amount should be distributed with funds for the campaign currently being distributed."

OIG Response:

Based on the PCFO's response, we concur that the PCFO's financial records comply with GAAP and that it utilizes an accrual based accounting system. However, in following the accounting procedures required under an accrual based system, the PCFO allowed itself to be reimbursed for accrued costs. Specifically, as cited in our draft report, it included the \$35,000 accrued for audit fees as part of its general ledger's ending balance, which was subsequently included in its request for reimbursement of its 2007 campaign expenses.

Reimbursement of expenses in this manner violates 5 CFR 950.106(a), which states that the PCFO shall recover from the gross receipts of the campaign its expenses reflecting the actual costs of administering the local campaign. It also violates the intent of CFC Memorandum 2008-09, which instructs PCFOs to accrue costs that will be incurred after the close of the campaign and withhold them from the final campaign distribution to campaign members, as well as from the final expense reimbursement to itself. In other words, the PCFO should not be reimbursed for its accrued expenses until it receives an invoice for the actual cost. Once the actual cost is known, the PCFO should then compare the difference between the accrued and actual cost and make whatever adjustments are necessary in accordance with CFC Memorandum 2008-09. It is our opinion that although CFC Memorandum 2008-09 specifically mentions audit expenses, that this type of accounting for CFC expenses should be done for all accruals and not just audit-related accruals.

Consequently, we maintain that the PCFO's method of reimbursing itself for its accrued costs does not comply with the CFC regulations, specifically 5 CFR 950.106(a), and that the PCFO should modify its policies and procedures for the reimbursement of these types of expenses so that they do comply with the regulations and the guidance provided in CFC Memorandum 2008-09.

Recommendation 11

We recommend that the OCFC and LFCC require the PCFO to modify its accounting policies and procedures related to the reimbursement of accrued expenses so that they comply with the regulations and the guidance provided in CFC Memorandum 2008-09.

C. CAMPAIGN RECEIPTS AND DISBURSEMENTS

1. PCFO was Reimbursed for Estimated Expenses

Procedural

The PCFO was incorrectly reimbursed \$2,129 for estimated expenses related to a special distribution of funds.

5 CFR 950.106(a) states that the PCFO shall recover only the actual costs of administering the campaign.

During our review of a transfer of funds from the CFCNCA Campaign Account to the CFCNCA Operating Account, we determined that the PCFO was reimbursed \$2,129 for estimated expenses related to a special distribution of campaign funds. Specifically, the OCFC determined that the United Way of Central Maryland (UWCMD) had erroneously received \$106,436 during the 2002 and 2004 campaigns, and that the money should have been credited to the CFCNCA. To correct the issue, the UWCMD transferred the funds to the CFCNCA and the OCFC determined that the CFCNCA should treat these funds as undesignated funds for the 2008 campaign. The PCFO did distribute these funds as undesignated funds to the 2008 campaign, less estimated expenses of \$2,129. The PCFO stated that they estimated their administrative expenses for this special distribution to be 2 percent. The PCFO was not able to provide supporting documentation for any actual expenses related to this special distribution. Therefore, we determined that the PCFO was reimbursed based on estimated and not actual expenses as allowed by the CFC regulations.

Because the PCFO based its reimbursement on estimated instead of actual costs, it runs the risk of overcharging the campaign and thereby limiting the amount of funds that are distributed to participating charities.

PCFO Comments:

The transfer from the CFCNCA Campaign Account to the CFCNCA Operating Account, in the amount of \$2,129, is allowable because it was a specially authorized administrative expense related to processing an additional amount creditable to the CFCNCA from earlier campaigns. The UWCMD determined that it had erroneously received \$106,436, which should have been credited to the CFCNCA during the 2002 and 2004 campaign years. An OPM Compliance Specialist determined that these funds should be distributed as undesignated funds for the 2008 campaign. The \$2,129 was found to be the incremental administrative cost associated with this

special distribution of funds. Accordingly, this amount was transferred from the CFCNCA Campaign Account to the Operating Account.

OIG Response:

While we agree that the PCFO is entitled to a reimbursement of its administrative expenses for this special distribution of funds, we do not agree with the amount charged against the campaign because the amount was based on a good faith estimate instead of actual costs. As stated above, the CFC regulations require that the PCFO recover only its actual costs of administering the campaign.

Recommendation 12

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.

2. Unearned Interest in the CFCNCA Bank Accounts Procedural

The PCFO did not obtain approval from the OCFC for earning a credit instead of interest on campaign funds in the CFCNCA [REDACTED] Account, the account used to deposit campaign cash and check collections. 5 CFR 950.105(d)(8) states that it is the responsibility of the PCFO to keep and maintain CFC funds in interest bearing bank accounts, and that all interest earned must be distributed in the same manner as undesignated funds pursuant to §950.501.

During our review of interest earned on funds in the CFCNCA [REDACTED] Account, we determined that the funds did not earn interest after June 2009. However, we determined that the PCFO negotiated with the bank to provide a credit instead of interest in order to obtain a higher benefit to the campaign. Specifically, after determining that [REDACTED] would only offer interest at the rate of [REDACTED] [REDACTED] the PCFO negotiated with the bank to provide a credit on bank fees equal to up to [REDACTED] basis points, which yielded a reduction in bank fees equal to \$3,109 from July of 2009 through February of 2010. Had the PCFO accepted the bank's interest rate offer, only \$93 in interest would have been earned during this same period.

Although the PCFO did provide a net benefit to the campaign of \$3,016, they should have obtained approval from the OCFC for earning a credit instead of interest on campaign funds.

PCFO Comments

The PCFO contends that it was correct in negotiating the credit on the bank fees in lieu of earning interest on campaign funds because it produced a net benefit to the campaign. It did not realize that it needed to obtain OCFC approval before making this type of change.

OIG Response:

While we do not object to the PCFO's efforts to earn a better benefit on campaign funds, we maintain that it should have obtained approval from the OCFC before making this type of change.

Recommendation 13

We recommend that the PCFO obtain approval from the OCFC for any changes to procedures which differ from the CFC regulations.

D. ELIGIBILITY

1. Untimely Notice of Eligibility Decisions by LFCC

Procedural

The LFCC did not issue its eligibility decisions within 15 business days of the closing date for receipt of applications, for charities wishing to participate in the 2008 campaign.

5 CFR 950.801(a)(5) states that the LFCC "must issue notice of its eligibility decisions within 15 business days of the closing date for receipt of applications."

We reviewed a sample of eligibility letters that were sent by the LFCC to determine if the LFCC's eligibility decisions were made within 15 business days of the closing date of the applications, which for the 2008 campaign was March 11, 2008. The sampled eligibility notification letters were dated after April 1, 2008 (15 business days after the closing date for receipt of applications). Per the PCFO, "This was due to the bulk of approval letters that had to be written, printed, and submitted in a short period of time, due to the fact that the LFCC didn't approve the applications until the end of April."

As a result of the LFCC issuing notifications after April 1, 2008, agencies and federations were not notified of the LFCC's eligibility decisions in a timely manner. Furthermore, those organizations accepted could not properly plan and budget for the coming year and those denied could not properly appeal the decision.

PCFO Comments:

The PCFO contends that at the time it mailed its eligibility decisions, it relied on the OPM Calendar of Events which states that "all local application decisions must be completed by the LFCC no later than May 2...." Consequently, it issued a majority of its 1,732 eligibility decisions by May 2, 2008, with the remaining decisions being mailed out on May 5, 2008. However, the PCFO does not oppose Recommendation 14 below.

OIG Response:

The OPM Calendar of Event's May 2, 2008, deadline to issue eligibility decisions was 15 business days following an assumed application closing date of April 14, 2008. However, the CFCNCA did not set an application closing date of April 14th. Instead, its application closing date was March 11, 2008. Therefore, according to 5 CFR 950.801(a)(5), the deadline to issue eligibility decisions would be 15 business days following March 11, or April 1, 2008. That being said, the PCFO does not oppose Recommendation 14, which if implemented should prevent this issue from re-occurring in future campaigns.

Recommendation 14

We recommend that the OCFC ensure that the LFCC issues notice of its eligibility decisions within 15 business days of the closing date for receipt of applications in compliance with 5 CFR 950.801(a)(5).

Recommendation 15

In the event that the PCFO is consistently unable to meet this deadline due to the size of the CFCNCA campaign, we recommend that the OCFC consider changing the regulations to include a calendar date for completing the local review that is similar to the calendar date deadline for the national/international list. We would also recommend that the modified regulations specify that this change is only applicable to campaigns above a certain size.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

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June 23, 2011

VIA EMAIL AND U.S. PRIORITY MAIL

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Group Chief
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United States Office of Personnel Management
1900 E Street, N.W. Room 6400
Washington, D.C. 20415-1100

Subject: Responses of Global Impact To Draft Report No. 3A-CF-00-10-034

Dear [REDACTED]

Pursuant to your suggestion, Global Impact will respond separately to each of the 14 separate tentative findings your office made in its Draft Report of May 31, 2011 (the "Report"). This will allow your staff to review our responses as they receive them and to meet with Global Impact staff if necessary to ask follow up questions and gather additional information. Our goal will be to provide you with comprehensive responses to all of your tentative findings prior to the July 15, 2011 extended response deadline.

Our initial review of each finding in the Report demonstrates significant errors by your audit team that render the initial findings materially inaccurate. We welcome this opportunity to correct these inaccuracies and encourage your staff to ask all relevant follow-up questions.

We recognize that the CFCNCA is large and complicated, involving thousands of entries and transactions. Accordingly, your task of learning how the system works and rendering an accurate report during a finite review period is quite difficult.

However, many of your tentative conclusions, if not corrected, make allegations of malfeasance against Global Impact that are not true and are not supported by the facts. The truth is that Global Impact assumed the role of PCFO in historically difficult economic times and managed the CFCNCA to new revenue highs in years that charitable giving in other forums was shrinking dramatically, while reducing expenses as a percentage of revenues to new lows; and it did so in a highly professional manner.

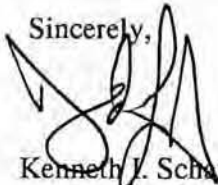
For instances involving human error resulting in mistaken transactions, many of which were not the fault of Global Impact or CFCNCA staff, Global Impact's internal system of checks and procedures, and its employees, timely detected and corrected such mistakes. Your draft report suggests a different and inaccurate picture.

Our responses will correspond to the alphabetical and numerical topics set forth in the "Contents" section of your Draft Report. Enclosed are the first two memoranda bearing the identifiers "C.3." and "C.4.". The exhibits associated with each topic are, and in future memoranda will be, identified with a number after the alpha-numerical identifier related to each particular topic; e.g., the first exhibit in the attached Memorandum relating to topic C.4. is identified as Exhibit C.4(1), the second exhibit in the attached Memorandum is identified as Exhibit C.4(2), and so on.

As additional topics are completed, we will send them to you. When all of our responses are completed, we will assemble them into one document and include an introductory section explaining further how Global Impact has managed the CFCNCA to increase contributions to designated charities while decreasing operating expenses and holding its expenses below the national average for CFCs. We will also discuss other relevant facts bearing on the highly professional manner in which Global Impact conducts the CFCNCA.

We encourage your staff to make contact with Global Impact on each topic response as you receive them. Global will fully cooperate with any follow-up questions posed by your staff, as it has throughout this audit process.

Sincerely,



Kenneth J. Schaner
David M. Lubitz
General Counsel, Global Impact

OIG Audit Topic C.3.:

**OIG Deleted pgs. 1, 3 and 4 of this Portion of the PCFO's Response
Not Relevant to the Final Report**

- c. Transfer #3 From The CFCNCA Campaign Account To The CFCNCA Operating Account, In The Amount Of \$2,128.73, Is Allowable Because It Was A Specially Authorized Administrative Expense Related to Processing Of An Additional Amount Creditable To The CFCNCA From Earlier Campaigns

On March 31, 2010, a transfer of \$2,128.73 was made from the CFCNCA Campaign Account to the CFCNCA Operating Account, after an OPM Compliance Specialist approved such amount as an administrative expense for processing an additional \$106,436.46 received by the CFCNCA from the United Way of Central Maryland (UWCMD). UWCMD determined that it had erroneously received such amount, which should have been credited to the CFCNCA during the its 2002 and 2004 campaign years. The OPM Compliance Specialist determined that the portion of funds relating to the 2002 campaign should be treated as undesignated funds for the 2008 campaign year. \$2,128.73 was found to be the incremental administrative cost associated with this special distribution of funds received from UWCMD from the 2004 campaign. Accordingly such amount was transferred from the CFCNCA Campaign Account to the CFCNCA Operating Account. Attached at Exhibit C.3.(3) is the documentation that supports this allowable transfer.






**Deleted by the OIG
Not Relevant to the Final Report**

[Bookmark](#)

PBC: According to Stan Berman, CFO, Global Impact, this is the PCFO's best good faith estimate of the expenses it took to distribute the extra funds received from the United Way of Central Maryland. The PCFO estimated that the cost was about 2% and they created this spreadsheet to develop a breakdown of their good faith estimate. The costs below are still estimated and not actual expenses.

[Bookmark](#)

Central Maryland CFC Special Distribution

	Unit	Unit Cost	Total
Direct Processing			
	2	XX.XX	\$ 124.26
	2	XX.XX	\$ 88.94
	6	XX.XX	\$ 175.92
	5	XX.XX	\$ 131.30
	1	XX.XX	\$ 120.07
total			<u>\$ 640.49</u>
checks	667	\$ 0.44	\$ 293.48
check stock	667	\$ 0.09	\$ 60.03
envelopes	667	\$ 0.13	\$ 86.71
postage	667	\$ 0.44	\$ 293.48
paper(reams)	1.334	\$ 3.40	\$ 4.54
total			<u>\$ 738.24</u>
Total Direct Processing			<u>\$ 1,378.73</u>
Investigation 10 @ \$75	10	\$ 75.00	\$ 750.00
Overall Total			<u>\$ 2,128.73</u>
Distribution			\$ 106,000.00
% of Cost			2%

OIG Audit Topic C.4.:

**OIG Deleted pgs. 1 - 3 of this Portion of the PCFO's Response
Not Relevant to the Final Report**

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July 11, 2011

VIA EMAIL AND U.S. PRIORITY MAIL

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

Subject: Additional Responses of Global Impact To Draft Report No. 3A-CF-00-10-034

Dear [REDACTED]

With the attachments to this letter, we are providing you with additional responses to the tentative findings of the May 31, 2011 Draft Report issued by your office. The attached responses and supporting exhibits address Draft Report sections C.1, C.2, C.5, C.6, C.8 and D.1. On June 23, 2011, we provided your office with responses and supporting exhibits to sections C.3 and C.4 of the Draft Report.

We will follow up with our remaining responses and supporting documents soon. We continue to encourage your staff to contact Global Impact, if your audit team has follow-up questions. As it did during the audit process, Global Impact stands ready to provide full cooperation in answering any of your audit team's questions.

Sincerely,



Kenneth I. Schaner
David M. Lubitz
General Counsel, Global Impact

C.1./C.2.

**OIG Deleted pgs. 1 - 2 of this Portion of the PCFO's Response
Not Relevant to the Final Report**

C.5.:

**OIG Deleted pgs. 1 - 3 of this Portion of the PCFO's Response
Not Relevant to the Final Report**

C.6.

Global Impact Properly Maintained CFF Funds in Interest Bearing Accounts At All Times

In Section C.6. of the Draft Report, OIG concludes that Global Impact improperly failed to maintain Combined Federal Campaign ("CFC") funds in interest bearing accounts for the period July 2009 through January 2010 and therefore violated 5 C.F.R. § 950.105(d)(8). As explained herein, this conclusion is incorrect.

For the CFCNCA Campaign account, Global Impact has entered into an interest bearing repurchase arrangement whereby the account is swept daily, the money is transferred out of the account each night, the money contained therein is invested, and then returned the following morning with interest. See Exhibit C.6.(1). Contrary to the audit team's allegations, CFCNCA Campaign account funds for the July 2009 through January 2010 period earned interest in the amount of \$ 2,381.64. Id. at page 8. Such interest is reflected in the monthly statements and in the Interest Income general ledger account for the period questioned in the Draft Report and attached to Exhibit 1 and pages 1-7 thereof.

The [REDACTED] account arrangement is different. Because the [REDACTED] account holds CFCNCA Campaign funds for only a short time period during the year, the cost of entering into a sweeps arrangement would be greater than any interest that could be earned. After determining that [REDACTED] only would offer interest at the rate of [REDACTED] Global Impact negotiated with the bank to provide a credit on bank fees equal to up to [REDACTED] yielding a reduction in bank fees equal to \$3,109.32. Had Global Impact accepted the bank's interest rate offer, only \$92.69 in interest would have been earned during the period questioned by the audit team. Global Impact therefore entered into an arrangement on behalf of the CFCNCA that produced a net benefit to the CFCNCA of \$3,016.63. Attached at Exhibit C.6.(2) is a summary spreadsheet prepared by Global Impact reflecting this net benefit to the CFCNCA's [REDACTED] account together with the bank statements supporting the analysis. In addition, this advantage had the advantage of Federal Deposit Insurance Corporation (FDIC) protection of CFCNCA [REDACTED] account funds through December 31, 2009.

Global Impact properly earned interest or another benefit for the CFCNCA on funds held by it. **The audit team erroneously determined that no interest was earned by Global Impact. Section C.6. and Recommendation 24 therefore should be withdrawn.**

C.8.:

**OIG Deleted pgs. 1 - 2 of this Portion of the PCFO's Response
Not Relevant to the Final Report**

D.1.:
Some Eligibility Decisions For The 2008 Campaign Were Mailed Untimely, But
Such Decisions Were Mailed Three Days Late, Not More Than A Month Late

The audit team relies on 5 C.F.R. §950.801(a)(5), which requires that eligibility decisions be issued within 15 business days of the closing date receipt for applications. The closing date for receipt of 2008 Campaign applications was March 11, 2008.

At the time that Global Impact mailed its eligibility decisions, Global Impact relied on an OPM-issued "Calendar of Events," which is attached hereto at Exhibit D.1.(1) at page 3. The Calendar of Events states that "all local application decisions must be completed by the LFCC no later than May 2, 2008."

The majority of the 1,732 eligibility decisions were issued on Friday May 2, 2008 and the rest were mailed on Monday, May 5, 2008.

Global Impact does not oppose Recommendation 29.

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July 18, 2011

VIA EMAIL AND U.S. PRIORITY MAIL

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

Subject: Additional Responses of Global Impact To Draft Report No. 3A-CF-00-10-034

Dear [REDACTED]

With the attachments to this letter, we are providing you with Global Impact's response to section C.7. of the tentative findings of the May 31, 2011 Draft Report issued by your office. The attached response completes the findings and recommendations related to section C of your Draft Report.

We will follow up with our remaining responses and supporting documents soon. We continue to encourage your staff to contact Global Impact, if your audit team has follow-up questions. We are surprised that to date the audit team has made no such contact with Global Impact since we began submitting responses to your office on June 23. As it did during the audit process, Global Impact stands ready to provide full cooperation in answering any of your audit team's questions.

Sincerely,



Kenneth I. Schaner
David M. Lubitz
General Counsel, Global Impact

C.7.:

**OIG Deleted pgs. 1 - 2 of this Portion of the PCFO's Response
Not Relevant to the Final Report**

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July 29, 2011

VIA EMAIL AND U.S. PRIORITY MAIL

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

Subject: Final Additional Responses of Global Impact To Draft Report No. 3A-CF-00-10-034

Dear [REDACTED]

With this letter, we are filing on behalf of Global Impact the remaining responses (Section B.1-B.4.) to the tentative findings of your office in its Draft Report of May 31, 2011.

In the Draft Report, the audit team made 13 separate tentative findings questioning Global Impact's management of the CFCNCA, its conformance to generally accepted accounting principles (GAAP), and its compliance with OPM regulations. As you can see from the comprehensive nature of our responses, Global Impact has taken very seriously your tentative findings and has fully responded to each issue raised in the Draft Report.

Our responses, which are dealt with at very substantial length in the filings corresponding to each section of the Draft Report:

- Demonstrate that Global Impact -- through the generosity of NCA federal employees, even in these historically difficult economic times -- has significantly increased CFCNCA revenues during each of the years in which it has served as PCFO, and at the same time substantially decreased costs of the Campaign;
- Show that Global Impact has fully complied with GAAP, and that virtually all of the questions raised by OIG can be answered by a proper understanding of Global Impact's CFCNCA books and records, which the audit team repeatedly misinterpreted throughout the Draft Report; and,

- Document full compliance with OPM regulations, published guidelines, and written instructions to the PCFO or the LFCC, many of which OIG did not note in its Report.

Your audit team initially contacted Global Impact in January 2010, initially met with Global Impact staff on July 6, 2010 and issued its Draft Report on May 31, 2011. We believe that your staff worked hard and responsibly to determine whether Global Impact had fully complied with the rules applicable to the PCFO of the CFCNCA. We commend your staff for its hard work and raising issues that are important to the Campaign. Global Impact welcomes the OIG audit and the opportunity to demonstrate that it has fully responded to the issues raised in the Draft Report and fully complied with Campaign rules applicable to it as PCFO. Global Impact recognizes that serving as PCFO involves a public trust—a responsibility it takes very seriously.

Because the CFCNCA is the largest workplace giving campaign in the world and involves thousands of individual transactions to record the revenues and expense of each campaign, it is not surprising that the audit staff could make a series of mistaken assumptions and erroneous determinations. We recognize that the purpose of the draft report process is to allow this response and a subsequent give and take period during which Global Impact is able to fully explain which of the audit staff's assumptions are incorrect.

While the audit staff made some valuable contributions to raising Global Impact's awareness to the importance of certain individual transactions, as a general matter we are forced to observe that most of the conclusions reached in the Draft Report are either erroneous and represent a misunderstanding of the associated accounting entries, or, in the case of the determinations in section B.2. and B.3. of the Draft Report, are incorrect as a matter of law and represent a mysterious attempt by the audit staff to legislate new rules based on their subjective judgments as to the value of certain expenditures deemed by Global Impact and others experienced with fundraising as necessary to a successful fundraising campaign.

With respect to sections B.2. and B.3. of your Draft Report, the new rules devised by your staff: (i) are contrary to specific OPM guidance stating that "a meal served in conjunction with a campaign event is an allowable expense that may be paid from campaign receipts . . . [and] would be included in campaign expenses[.]" see Final Letter Exhibit 1 at page 1; (ii) are nowhere found in regulations applicable to the CFC or guidelines published by OPM; (iii) would retroactively and unlawfully change longstanding campaign practices; (iv) fail to take into account the need for and value of campaign volunteers and the requirement that their efforts be recognized; and (v) would cause a decrease in net contributions to the charities served by the CFCNCA, which under Global Impact's stewardship as PCFO has prospered during some of the most difficult economic times in our country's history.

Contrary to the Draft Report's findings, Global Impact's record as CFCNCA PCFO demonstrates a continuous increase in Campaign revenues and a decrease of Campaign expenses. The success of the CFCNCA is of course a tribute to the generosity of federal employees. But it is also a tribute to Global Impact, which has been recognized by OPM for excellent Campaign management in each of the years Global Impact served as the CFCNCA PCFO -- and should be so recognized by OIG in its final report.

We note that your audit was conducted without sensible materiality limitations, thereby forcing Global Impact to research and respond to items that in some instances involved amounts of \$6 or less. While Global Impact has responded fully to each item raised by OIG, no matter how small, we wonder whether the OIG staff would have been better served if it had concentrated on material items, thereby minimizing audit expenses for the government and for the CFCNCA.

While the individual responses to the Draft Report should fully explain the errors made in each determination in the Draft Report and why they must be withdrawn, for your convenience, we are summarizing Global Impact's responses below:

- B.1. The Draft Report is erroneous: There was no over-reimbursement, and the relatively small extra amount of total Campaign expenses over and above the amounts initially approved by the LFCC thereafter was approved by the LFCC, and a disbursement was made in accordance with CFC Memorandum 2008-09.
- B.2/3. The Draft Report is erroneous and except for certain immaterial expenses that Global Impact agrees should not have been reimbursed is diametrically opposed to specific OPM guidance. Attempt by the audit team to retroactively impose new rules nowhere is supported by applicable law and would be arbitrary and capricious.
- B.4. The Draft Report is erroneous. Global Impact properly accounted for all Campaign expenses. The audit team's inability to reconcile Global Impact's accounting occurred through misreading of Global Impact documentation and misunderstandings of Global Impact's accounting system, which complies with GAAP and Independent Public Auditor reviews.

**Deleted by the OIG
Not Relevant to the Final Report**

- C.3. The Draft Report is erroneous. The audit team failed to properly understand or seek explanations for the transactions it cited as unallowable. All questioned transactions are fully explained in the response.

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Not Relevant to the Final Report**

- C.6. The Draft Report is erroneous. Global Impact either maintained CFCNCA in interest bearing accounts, or negotiated a credit in lieu of interest that exceeded market interest rates.

**Deleted by the OIG
Not Relevant to the Final Report**

- D.1. The Draft Report is correct in its conclusion that some eligibility determinations were sent out for the 2008 Campaign after the deadline established by OPM, but the proper deadline was May 2, 2008, not March 31, 2008 as the audit staff erroneously concluded, and only a small portion of the determinations were sent out 3 days late — most were timely. Nevertheless, Global Impact is taking steps to prevent late notifications from occurring again.

The above conclusions reached by Global Impact -- that in most instances demonstrate that the findings reached by OIG in the Draft Report are erroneous -- are fully supported in the responses by documentary evidence set forth in extensive exhibits, by declarations and letters from experienced fundraisers, and by the IPA, BDO Seidman, whose review of Global Impact's responses to the Draft Report is included herewith as Final Letter Exhibit 2. The IPA's review confirms the accuracy of the data submitted Global Impact with its responses.

We note that many of the errors made by the audit team may have resulted through failure of the team to ask the proper questions of Global Impact accounting personnel. We suspect that in the pressure of other work and internal deadlines, the audit team did not feel it had sufficient time to ask the proper questions and digest the proper explanations.

If not corrected before the final report, the findings and recommendations in the Draft Report would damage the CFCNCA and Global Impact, and create an impression of inefficiency and waste that is belied by the information revealed in Global Impact's exhaustive responses during the audit process and to the Draft Report, and the results achieved by Global Impact for the CFCNCA.

We were receptive to your idea to submit Global Impact's responses as they were completed rather than awaiting the final deadline, because we hoped the audit team would turn to each response as it was received and ask for further explanations, if staff felt such explanations were needed. We are surprised that no such meetings have been requested to date in view of our findings, but assume that the audit staff now understands its errors, or will leave adequate time

Page 5

after this filing to ask for further clarification. We can assure you that we and the Global Impact staff will be available to you and your staff to respond to any further requests.

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

Sincerely,

Handwritten signatures of Kenneth I. Schaner and David M. Lubitz.

Kenneth I. Schaner
David M. Lubitz
General Counsel, Global Impact

B.1.:

Global Impact Fully Complied With the CFC Calendar And Did Not Over-Reimburse Itself

In Section B.1., at pages 1-2, of the Draft Report, the audit team makes two incorrect assertions. First, the audit team incorrectly alleges that all Campaign expense disbursements must be made on or before the second March 31 following the commencement of a Campaign. Second, the audit team incorrectly alleges that Global Impact over-reimbursed itself in the amount of \$2,493 for 2008 Campaign expenses.

a. Actual Final Reimbursements For The 2007 And 2008 Campaigns Were Correctly Made

The Draft Report mistakenly alleges that all Campaign expense disbursements must be made on or before the second March 31 following the commencement of the campaign (the "Second March 31st"), i.e., March 31, 2009 for the 2007 Campaign; and March 31, 2010 for the 2008 Campaign. OPM's CFC Calendar of Events, which requires that final disbursements be made on or before the Second March 31st, must be interpreted to apply to distributions to charities, because final expense reimbursements cannot be completed until all third party expense invoices or other demands for payment related to a campaign are received by the PCFO. Because a campaign ends on the Second March 31st, some third party expense invoices inevitably will be incurred right up to that date and received by the PCFO after it. If the audit team's interpretation was correct, those invoices would not be able to be paid.

For example, if the CFCNCA incurs a third campaign expense for information technology services on the day before the Second March 31st, Global Impact will not receive an invoice from the third party contractor for such information technology services until some date after the Second March 31st (the "Additional Invoice"). Global Impact must be able to pay the Additional Invoice after the Second March 31st.

Recommendations 1 and 2 should be withdrawn.

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Not Relevant to the Final Report**

**Deleted by the OIG
Not Relevant to the Final Report**

B.2./B.3.:
CFCNCA Travel And Campaign Expenses Are
Within Regulatory Requirements And Allowable

The audit team's assertions at subsections B.2. and B.3. of the Draft Report that Global Impact was reimbursed for unreasonable, unallowable or unsupported travel expenses are wrong as a matter of law and fact. The expenses identified at Sections B.2 and B.3 of the Draft Report were used in furtherance of the CFCNCA and were actual and approved by the LFCC, as required by 5 C.F.R. §950.105(b). As explained further herein, the audit team's assertion that Global Impact should repay them is arbitrary and capricious as a matter of law and unreasonable as a matter of fact.

The audit team's attempt to disallow as Campaign expenses meals and similar charges that were provided during Campaign events is based on a misreading and/or lack of knowledge of the regulations governing Campaign operations and OPM issued guidance. The audit team asserts a wholly new and untenable standard by which to judge Campaign expenditures that is diametrically opposed to the way in which OPM guides PCFOs.

U.S. Office of Personnel Management, Combined Federal Campaign, "Proven Practices and New Innovations," Campaign Events (hereinafter, "OPM Proven Practices Memo"), which appears in the LFCC On-Line Campaign Manual (Feb. 2001), states:

A meal served in conjunction with a campaign event is an allowable expense that may be paid from campaign receipts. The cost would be included in campaign expenses. The LFCC Chair makes decisions about the appropriateness of CFC-sponsored dinners and luncheons.

available at <http://www.opm.gov/cfc/LFCC-Online/Proven-Practices.asp>. The OPM Proven Practices Memo also states that "[c]ampaign kickoffs, progress reports, awards, victory events, and other non-solicitation events to build support for the campaign are strongly encouraged."

The audit team's "belief" that meals for Campaign participants do not benefit the Campaign, Draft Report at pages 2 and 5, is irrelevant. OPM provides precisely the opposite guidance, and, as explained more fully herein, OPM is correct (and the audit team is incorrect) in determining that such expenses do provide benefits to the CFC.

In this section of its response, Global Impact will address the assertions of the audit team that are common to the transactions challenged in sections B.2 and B.3 of the Draft Report. Thereafter, in separate sections entitled "B.2." and "B.3.", Global Impact will address the specific transactions identified in the spread sheets that were attached to the Draft Report.

a. By Every Reasonable Measure, Global Impact's Service as PCFO For The CFCNCA Has Been Exemplary

Before turning to specifically address the meals and similar expenses challenged by the audit team at Sections B.2 and B.3., Global Impact supplies the following information to demonstrate that its service as Principal Combined Fund Organization ("PCFO") of the Combined Federal Campaign of the National Capital Area ("CFCNCA") has been "effective and efficient" and that it has "collect[ed] the greatest amount of charitable contributions possible" for the CFCNCA. In its management of the CFCNCA, Global Impact fully complies with 5 C.F.R. §950.105(b), which states that "the primary goal of the PCFO is to conduct an effective and efficient campaign in a fair and even-handed manner aimed at collecting the greatest amount of charitable contributions possible" for the CFCNCA.

The audit team's interpretation of this regulation incorrectly and myopically focuses on a dollar-for-dollar basis whether each individual expenditure directly produces additional Campaign revenue. The audit team fails to recognize that expenditures on Campaign infrastructure are necessary to achieve the "primary goal" as stated in the regulation. The standard used by the audit team cannot be whether each particular expenditure directly produces a corresponding greater donation or donations to the CFCNCA, but whether the expenditures reasonably promote "an effective and efficient campaign" as a whole, as judged by the amounts raised by the CFCNCA (effectiveness) and overall CFCNCA expenditures as a percentage of amounts raised (efficiency).

Global Impact was chosen as the PCFO for the CFCNCA at least in part because of its over 50 years of experience participating in and managing workplace giving campaigns. Each year that Global Impact has been PCFO for the CFCNCA, it has increased CFCNCA contribution revenue and decreased expenses, both in absolute terms and as a percentage of revenue. Exhibit B.2./B.3.(1) at page 1. Global Impact has done this despite the fact that during the audited Campaign years the Nation has undergone a severe recession. CFCNCA campaign revenues have outpaced nationwide CFC giving for each audited year. Id. at page 2.

Remarkably, for each of the audit years, Global Impact has conducted the CFCNCA by spending decreasing amounts of Campaign revenue on fundraising expenses. Exhibit B.2./B.3(2). Of critical importance is the fact that Global Impact spent less than 9% of Campaign revenue on expenses in 2007, 8.1% in 2008, 7.4% in 2009 and 7.0% in 2010. As explained in the following section, these amounts are well below the national average for CFCs and well below the amounts recommended by reputable third party charity watchdog organizations.

b. In Comparison To National Averages And Standards, The CFCNCA Run By Global Impact Ranks Among The Most Efficient Fundraising Campaigns

Page 1 of Exhibit B.2./B.3.(1) shows the national average for CFC Campaign expenses. In every year, Global Impact has spent far less than the national CFC average. The CFC

Campaign national average has fluctuated between 10.2% and 10.5% during the years at issue in this audit. See also Office of Personnel Management, Combined Federal Campaign, "Frequently Asked Questions," CFC Donations ("Historically, campaign costs nation-wide have averaged ten percent On average, this cost is low compared with other fundraising campaigns[.]"), available at <http://www.opm.gov/cfc/html/faq.asp>. By comparison, Global Impact has steadily decreased fundraising expenses, from a high of 8.9% in 2007 to 7.0% in 2010.

The focus on fundraising expenses as a percentage of fundraising expenses is critically important. That is how charitable fundraisers are judged in the fundraising industry. Charity Navigator, www.charitynavigator.org, a ratings service to which charities and their donors pay close attention, states:

Charities spend money to raise money. Effective charities must in part be efficient fundraisers, spending less to raise more. We calculate a charity's fundraising efficiency by determining how much it spends to generate \$1 in charitable contributions. In other words, we divide a charity's fundraising expenses by the total contributions it receives as a result. For example, Charity Z, with fundraising expenses of \$500,000 and total contributions of \$3.4 million, has a fundraising efficiency of \$0.147, which means it spends 14.7 cents to raise \$1. After calculating a charity's fundraising efficiency, we convert the results to a numerical score ranging from 0 to 10.

<http://www.charitynavigator.org/index.cfm?bay=content.view&cpid=35>.

According to Charity Navigator, the general median charity fundraising efficiency is \$0.10. <http://www.charitynavigator.org/index.cfm/bay/content.view/cpid/48.htm>. CFCNCA's 2007-2010 record for fundraising efficiency is as follows: 2007 – \$0.089; 2008 – \$0.081; 2009 – \$0.074; and 2010 – \$0.70. Charities that spend less than \$0.10 for each \$1 raised receive from Charity Navigator the highest fundraising efficiency score of "10". In its management of the CFCNCA, Global Impact has achieved the highest possible efficiency score.

The Better Business Bureau's ("BBB") Wise Giving Alliance ("WGA") is another watchdog service to which charities and donors pay close attention. WGA calls itself "the nation's preeminent national charity evaluation organization." <http://www.bbb.org/us/partnerships/wise-giving-alliance-corporate-resources/>. According to WGA, the median customary fundraising efficient quotient should be 35%, meaning that no more than 35% of contribution's received by an organization related to its fundraising efforts should be spent on fundraising expenses. <http://www.bbb.org/us/Charity-Standards/> (Standard 9). As stated above, Global Impact far exceeds the WGA's Standard for fundraising efficiency and earns BBB's highest efficiency score.

c. OPM Repeatedly Has Recognized CFCNCA For Its Effective Fundraising Practices

This year, as it has for each year since 2003, Global Impact won an Innovator's Award from the Office of Personnel Management as "one of the Most Successful CFC Campaigns of 2010." <http://www.opm.gov/news/opm-recognizes-the-most-successful-cfc-campaigns-of-2010.1675.aspx>. In announcing the 2010 awards, OPM Director Berry said that CFCNCA and the other awardees "went above and beyond, making CFC such an enormous success. All federal workers can be proud of their accomplishments and dedication." Id.

Similar statements in each of the last eight years have been made regarding the CFCs for which Global Impact served as PCFO. See Exhibit B.2./B.3.(3). Global Impact is the only PCFO to have earned an Innovator Award for each year that it has served as PCFO.

In 2007, the year that Global Impact received an Innovator's Award for its baseball themed campaign, for which Global Impact hosted an event at RFK stadium, the expenses for which the audit team has challenged as not benefitting the Campaign, OPM said this:

Keeping with this theme, the campaign kickoff was held at a Washington Nationals baseball game. Prior to the game, Admiral Thad Allen, Commandant of the U.S. Coast Guard and the CFC Honorary Chairman, threw the ceremonial first pitch in honor of the 2007 campaign. The Coast Guard provided the anthem singer, color guard and a Coast Guard rescue helicopter flyover. More than 600 campaign managers, loaned executives, key workers and friends attended the event, in addition to the crowd of 35,000. The Nationals mascot, Screech, was present at the CFC-NCA Leadership Conference as well as numerous agency kickoffs and rallies.

The campaign theme has given Federal agencies and departments great latitude when it came to marketing their fund drives. But just as importantly, it provided them with an excellent opportunity to interject fun and enthusiasm in their campaigns.

Exhibit B.2./B.3.(3) at pages 10-11.

At various places within the spreadsheets that accompany the Draft Report, the audit team challenges expenses related to donor and potential donor research as not benefitting the Campaign. OPM certainly disagrees, because it repeatedly has relied on Global Impact for the results of this research. Exhibit B.2./B.3(4) at ¶13 and accompanying Exhibits C and D. In fact, in 2010 OPM awarded Global Impact an Innovator's Award because of this research. Exhibit B.2./B.3. at page 1.

In the Draft Report, the audit team repeatedly chides Global Impact for a “culture . . . where the charging of meals as part of the normal course of business is an acceptable campaign expense.” Draft Report at pages 3 and 5. The “culture” of Global Impact and the CFCNCA, is to produce excellent fundraising results, and to charge reasonable expenses to the Campaign as the costs of producing these excellent fundraising results. The audit team’s pejorative gloss on Global Impact’s practices is neither founded in the regulations and guidelines that govern PCFO conduct, nor in any analysis of the excellent results achieved by Global Impact, and it is completely at odds with the views of the Office of Personnel Management, which repeatedly has recognized Global Impact for its innovative work on behalf of the CFCNCA.

In this regard, it is also worth noting the comments of [REDACTED] the representative of the Independent Charities of America and Local Independent Charities of America, who also serves and has served as PCFO for a variety of CFCs around the country. These comments are attached at Exhibit 7 to this Response. [REDACTED] states:

My federation clients and their member charities have gone on the record to praise the work Global Impact has done as PCFO for the CFCNCA. They consider that campaign to be the best run in the country. Don’t stop doing what you are doing, and that includes meals and other recognition part[s] of the campaign management mix.

Exhibit B.2./B.3.(7).

d. CFC Regulations Allow Recovery Of Expenses For Meals Provided To Campaign Workers And Similar Expenses During Official Campaign Activities

The audit team identifies two CFC regulations that govern reimbursement of Campaign expenses, 5 C.F.R. §950.105(b) and §106, in support of its assertion that the expenses cited in the Draft Report at sections B.2 and B.3 are unallowable. In particular, the audit team singles out meals provided to Campaign workers as constituting the majority of the expenses identified in sections B.2 and B.3. The audit team argues that these expenses are unreasonable, “because they did not provide a direct benefit to the campaign,” Draft Report at pages 3 and 5, and thus are unallowable.

The regulations do not prohibit provision of meals to Campaign workers and similar expenditures, and OPM guidelines affirmatively state that meals “**served in conjunction with a campaign event is an allowable expense that may be paid from campaign receipts.**” OPM Proven Practices Memorandum. By the Proven Practice Memorandum and other guidance, **OPM further encourages PCFOs to organize the non-solicitation campaign events such as “kickoffs, progress reports, awards, victory events, and other[s]”** that the audit team now challenges. The audit team’s effort now to force Global Impact to reimburse the CFC for the expenses it has incurred as PCFO for the CFCNCA is arbitrary, capricious, unreasonable in violation of the Administrative Procedures Act, 5 U.S.C. § 706(2)(A).

By 5 C.F.R. §950.105(b), “[t]he primary goal of the PCFO is to conduct an effective and efficient campaign in a fair and even-handed manner aimed at collecting the greatest amount of charitable contributions possible.” Section 105 goes on to state: “Therefore, PCFO’s should afford federated groups and agencies . . . in the local campaign area adequate opportunity to offer suggestions relating to . . . the campaign . . . the opportunity to attend all campaign meetings, kick-off events, and training sessions[,] . . . and [with the general public] the opportunity to review at the PCFO office all reports, budgets, audits, training information, and other records pertaining to the CFC.”

The primary goal set forth in section 105(b), “to conduct an effective and efficient campaign in a fair and even-handed manner aimed at collecting the greatest amount of charitable contributions possible” thus is enforceable through the other requirements set forth in that subsection: participation of local federated groups and agencies through suggestions as to how the CFC should be conducted and attendance at all Campaign events, and review by these groups and the public of all CFC-related records. No suggestion is made that Global Impact violated any of these requirements, and the audit team’s recommendation that Global Impact repay expenses incurred in conducting the CFC is not supported by this regulatory provision.

Section 106 provides that “[t]he 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.” 5 C.F.R. § 950.106(a). The LFCC approved the expenses now challenged by the audit team and the expenses indisputably were actually incurred in administration of the CFCNCA. This regulatory provision not only does not support the audit team’s position that Global Impact should repay the identified expenses, it affirmatively supports Global Impact’s proper incurrence of almost all of the expenses challenged by the audit team at sections B.2. and B.3. of the Draft Report.

Sections 105 and 106 of 5 C.F.R. Part 950 contain a multitude of very specific statements about how PCFOs must conduct Campaigns. Nowhere do these regulations say that reasonable meals in the context of conducting Campaign business and similar Campaign expenses may not be charged to the Campaign.

The regulations provide that PCFOs must “conduct campaign operations, such as training, kick-off and other events” separately from the non-CFC operations of a PCFO, 5 C.F.R. §950.105(c)(2)(ii), and “[t]rain[] agency loaned executives, coordinators, and key workers in the methods of non-coercive solicitation . . . completely separate from training given for other types of charitable campaign drives,” as well as additional keyworker training on aspects of CFC Campaign operations, *id.* at subsection (d)(2). It is at these training, kick-off and other events, which are mandated by the regulations, that Global Impact provides the meals about which the audit team now complains. Nowhere in the discussion of these mandatory separate training, kick-off and other events do the regulations prohibit the provision of meals to Campaign workers. In fact, OPM’s Proven Practices Memo, available at <http://www.opm.gov/cfc/LFCC-Online/Proven->

Practices.asp, specifically states that a “**meal served in conjunction with a campaign is an allowable expense that may be paid from campaign receipts,**” and it encourages, Kickoff Rallies, Victory Celebrations, and “Leadership Breakfasts,” among other things.

Indeed, in anticipation of the fact that the upcoming Campaign season is the 50th since the CFC formally was founded, the CFC Foundation has with input from OPM’s Office of the Combined Federal Campaign just recently published a toolkit for PCFOs, LFCCs and others encouraging CFCs to “[p]lan a special celebration (luncheon, dinner or reception) for Federal employees to network, reflect on the accomplishments of 2011, and celebrate the 50th anniversary together.” See Combined Federal Campaign 50th Anniversary “50th Anniversary Toolkit,” available at http://www.cfctoday.org/pdf/CFC_Toolkit_FINAL.pdf at page 28.

The audit team’s imposition of new rules after the fact without legal support for recovery of expenses actually incurred on behalf of the CFCNCA would be arbitrary and capricious in violation of the Administrative Procedures Act, 5 U.S.C. § 706(2)(A): “To be sure, the requirement that an agency provide reasoned explanation for its action would ordinarily demand that it display awareness that it *is* changing position. An agency may not, for example, depart from a prior policy *sub silentio* or simply disregard rules that are still on the books.” F.C.C. v. Fox Television Stations, Inc., 129 S. Ct. 1800, 1811 (2009).

The audit team’s new suggestion that CFCs including Global Impact must not expense meals to Campaign workers and similar Campaign expenditures would mark a dramatic shift over the way in which the CFCNCA is conducted. In fact, meals have been provided at such events for many years and by other CFCs. Exhibit B.2./B.3.(4) at ¶_ and (5).

As discussed in the following section, the audit team tacitly admits that PCFOs, LFCCs and others involved in CFC operations have not been accorded notice of such a position. Accordingly, effort by the OIG to force Global Impact to pay such Campaign expenses itself would “depart from . . . prior policy *sub silentio*” and “disregard rules that are still on the books,” which is arbitrary and capricious in violation of 5 U.S.C. §706(2).

- e. The Audit Team Tacitly Admits That Global Impact And Other PCFOs Have Not Been Provided Notice Of The Standard It Has Created In The Draft Report

In Recommendations 6 and 8, the audit team suggests that OPM provide guidance to PCFOs about what campaign expenses will be considered reasonable. In doing so, the audit team tacitly admits that no notice of its newly articulated position has been provided to Global Impact and other PCFOs.

Current regulations and guidance are sufficient. 5 C.F.R. §950.106(a) is the primary regulation governing recovery of Campaign expenses. The regulation provides that expenses must be “approved by the LFCC,” reflect “the actual costs of administering the local campaign,” and “shall not exceed 10 percent of the estimated budget” unless approved by the Director of OPM. The LFCC Manual, which was published in 2001, encourages a variety of fundraising events and provides that meals served in conjunction with campaign events are allowable Campaign costs.

Global Impact agrees that the actual costs of administering the CFCNCA also should be reasonable. The regulations give the LFCC primary authority to approve each Campaign budget and actual expenses. Regardless of whether OIG agrees with Global Impact and the LFCC that the Campaign expenses were reasonable, there should be no dispute that it would be arbitrary and capricious to impose a new legal standard months and years after the expenses have been incurred, and to try to force Global Impact to reimburse those expenses from its own operating expenses based on this new legal standard.

f. Payment of Meals For Campaign Workers And Similar Expenses Provide A Benefit To The CFC

The audit team argues for disallowance of meals and similar costs provided to campaign workers because they do not “provide a direct benefit to the campaign.” The audit team also contends that providing meals “is counterproductive to the CFC goal of collecting the greatest amount of charitable contributions possible,” presumably because each dollar that pays for a meal instead could be provided to a CFC charity. Draft Report at pages 3 and 5.

Nowhere in the regulations or OPM guidelines is there any requirement that a particular expenditure “directly benefit” the Campaign by causing a corresponding increase in Campaign revenue. The “direct benefit” standard created by the audit team for this audit is unworkable. Many, if not most, Campaign expenses incurred by Global Impact and other PCFOs do not directly contribute to Campaign revenue. For example, salaries of CFCNCA staff who manage the Campaigns and do not solicit campaign funds do not “directly benefit” Campaign revenue. Yet the audit team does not argue that Global Impact cannot pay the salaries of CFCNCA campaign staff. Indeed, payment of meals and similar expenses for campaign volunteers, who do solicit donations from federal employees (and thus any benefit to such volunteers arguably is more of a direct benefit to the campaign than salaries of PCFO staff), is authorized precisely because such volunteers are vital to the success of the CFC. Exhibit B.2./B.3.(4) at ¶6, (5) at ¶4, (6) and (7).

It is incorrect for the audit team to argue that money spent on meals for campaign workers does not “collect[] the greatest amount of charitable contributions possible.” Draft Report at pages 3 and 5. This argument ignores the very real

contribution to campaign worker morale and loyalty that small expenditures like meals afford the campaign, thereby increasing, not decreasing, charitable contributions. See Exhibits B.2/B.3.(4) at ¶¶5, 6, and 12; (5) at ¶7; (6) (“In Hawaii, most of recognize the truth in the saying “Provide food and they will come!”); and (7) (“The dollars expended in providing appropriate means/refreshment, some entertainment, and token gifts during campaign events are multiplied many times over in the extra revenues they generate through the enthusiasm they engender among the campaign workers.”). Indeed, CFCNCA research shows that Campaign volunteers believe that interaction with, and recognition from, co-workers and their department or agency leadership are the two most important factors in motivating volunteers to participate in the CFCNCA. Exhibit B.2./B.3.(8). See also Exhibit B.2./B.3.(4) at ¶12.

As recognized in the OPM Proven Practices Memo, “**Victory Celebrations . . . “acknowledge[] the contributions of all the people who worked on the campaign,” and “Leadership Breakfasts help “Federal agency heads [to] meet and share ideas for running successful CFC campaigns.”** In short, as recognized by Charity Navigator, supra at page 2, charitable fundraisers must “spend money to raise money.”

The time and effort contributed by these Campaign workers greatly multiplies CFC revenue, and the relatively small amounts expended on them are far outweighed by the far larger Campaign dollars that are generated by these motivated participants. B.2/B.3.(7). Given that Global Impact is required to perform the trainings identified at 5 C.F.R. 950.105(c)(2)(ii) and (d)(2), it is entirely reasonable for Global Impact to maximize the time that such persons are available by offering amenities such as meals to Campaign workers, many of whom are volunteers.

At various places in the spread sheets that the audit team attaches to its Draft Report, the audit team argues that meals and similar charges are not allowable because government workers typically are not provided with meals at trainings and similar events. However, the vast majority of the Campaign workers work on the CFCNCA as volunteers, not by virtue of their government salary, and Global Impact as PCFO must seek ways to recognize, appreciate and motivate these volunteers.

CFCNCA campaign expenses are not paid from appropriated government funds, and the rules that have been devised for determining whether federally appropriated money may be spent cannot be applied to CFCs. U.S. Government Accountability Office, Office of General Counsel, Matter of: United Way of the National Capital Area, B-311235 (May 16, 2008) (“All fees and reimbursement of expenses paid to a PCFO are taken from federal employees’ donations through the CFC; no appropriated funds are used to pay PCFOs.”) (Citing OPM brief and dismissing for lack of jurisdiction a challenge to the selection of Global Impact by the LFCC).

In any event, it is not true that government workers never are accorded meals at government-sponsored events. For example, in Government Accountability Office Decision B-300826 (March 3, 2005), the National Institutes of Health was permitted to provide meals and light refreshments to federal government attendees and presenters at an NIH-sponsored conference, which was held in furtherance of NIH's statutory mission to conduct and support research.

Global Impact's conduct of the CFCNCA is and has been "effective and efficient[.]" its Campaign expenditures have been "aimed at collecting the greatest amount of charitable contributions possible[.]" its budgets containing such expenditures have been approved by the LFCC, which also approves actual expenditures at the end of each Campaign, and the CFCNCA Campaign results, which have increased at the same time that Global Impact has decreased Campaign expenses as a percentage of revenue, positively attest to Global Impact's excellent management of the CFCNCA.

The audit team must revise the way in which it has reviewed the expenses identified at topics B.2 and B.3 and apply the regulations as they exist to the audited Campaign years. In doing so, the audit team should find that virtually every expense identified at topics B.2 and B.3 is reasonable and allowable.

Recommendations 5, 6, 7 and 8 should be withdrawn.

B.2.:
Travel Expenses Challenged In The
Draft Report Are Allowable And Reasonable

In this response, Global Impact provides category by category explanations that almost all of the travel and other expenses challenged by the audit team at section B.2 of the Draft Report are allowable and reasonable. The particular expenses questioned or challenged by the audit team are identified in this response by row number within the Campaign year spreadsheets (2007, 2008 and 2009) that were attached to the Draft Report.

Before turning to the explanations of the travel expenses challenged by the audit team, as identified in subsection a. of this Response, Global Impact provides the additional documentation requested at various places within the Campaign spread sheets attached to the Draft Report. In subsection b. of this Response, Global Impact identifies like categories of transactions questioned by the audit team within the spreadsheets attached to the Draft Report. In subsection c., Global Impact addresses documentation relating to de minimis expenses. In subsection d. of this Response, Global Impact identifies a few expenses that were incorrectly charged to the Campaign.

- a. Global Impact Hereby Attaches The Additional Documentation Requested By The Audit Team For The 2007 Campaign Transactions That Are Identified In The B.2. Spreadsheet Attached To The Draft Report

(2007 Campaign Spreadsheet, rows 23, 32, 50, 51 and 62)

Attached at Exhibits B.2.(1) through B.2.(5) is additional documentation for the 5 travel expense transactions requested by the audit team. On the first page of each of the attached exhibits, Global Impact has identified the particular transaction to which the requested supporting documentation relates by Campaign year and spread sheet row number.

- b. The Expenses Challenged By The Audit Team Are Reasonable And Allowable

Following are explanations as to the allowability and reasonableness of the 2007-2009 Campaign travel and other staff expenses challenged by the audit team. Global Impact has categorized and grouped the transactions, which individually are identified in the parentheticals by the row number of the Campaign spreadsheet, underneath the numbered heading for each category. At the attached spreadsheets created by the audit team, Global Impact has added a column and annotated the spreadsheets to identify by transaction its categorical response or responses to each expense challenged by the audit team. See Exhibit B.2.(6).

The first two categories below respond to the audit team's challenge to meal expenses related to Campaign events. In its "Proven Practices and New Innovations" Memorandum, which is part of the LFCC Campaign Manual, OPM specifically states that "[a] meal served in conjunction with a campaign event is an allowable expense that may be paid from campaign receipts. The cost would be included in campaign expenses. The LFCC Chair makes decisions about the appropriateness of CFC-sponsored dinners and luncheons." See <http://www.opm.gov/cfc/LFCC-Online/Proven-Practices.asp> (hereinafter, "OPM Proven Practices Memorandum"). These expenses are allowable.

1. LFCC/LAC Meals Are Reasonable And Allowable

(2007 Campaign spreadsheet at row numbers 9-14 and 16-18; 2008 Campaign spreadsheet at row numbers 9-14, 17, 20, 24, 33 and 35; 2009 Campaign spreadsheet at row numbers 11-22, 31 and 35).

The audit team argues that there was no benefit to the CFC in providing breakfasts and lunches to the Local Federal Coordinating Committee ("LFCC") or its subcommittee, the Local Application Review Committee ("LAC"). These meals were provided during official CFCNA meetings at which CFCNCA business was transacted, so that work performed by LFCC and LAC members, who are volunteers, could be conducted more efficiently. This benefits the Campaigns.

During the LAC meetings at issue (2007 Campaign spreadsheet rows 9-13 and 17-18; 2008 Campaign spread sheet rows 9-14, 20, 33 and 35; 2009 Campaign spread sheet rows 11-22 and 35), LAC members reviewed 1,653 applications of federations and charities for inclusion in the 2007 CFCNCA, 1,732 applications for inclusion in the 2008 CFCNCA and 1,776 applications for inclusion in the 2009 CFCNCA. Pursuant to 5 C.F.R. §950.204(e), eligibility determinations must be completed according to a timetable set by OPM.

Meals were provided to promote efficiency of the LAC in completing their time sensitive work and to provide a minor benefit to these Campaign workers, who furnish their time and services without compensation. The LAC consists of 25 members. During the 2007-9 Campaigns, the per person average cost of breakfast provided to LAC members ranged from \$7.47-\$8.60 and the per person average cost of lunch was \$12.52-\$14.50.

Also, lunch was provided at LFCC board meetings (2007 Campaign spreadsheet row 16; 2008 Campaign spreadsheet rows 24 and 31; 2009 Campaign spreadsheet row 31). For the 2007 and 2008 lunches at issue, the per person average for the cost of lunch was \$11 and \$13.50 respectively. The 2009 Campaign luncheon cost was similar. Lunch was provided so that volunteer LFCC members could attend the meetings during the work day at a time that minimizes absence from their government job duties.

These Campaign expenses benefit the Campaign by promoting efficient Campaign operations. See also Global Impact's B.2./B.3. Response, providing other support for ways in which meals benefit the Campaigns.

2. Meetings And Events Involving Loaned Executives, CFCNCA Staff and LFCC Members At Which Food Was Served Are Allowable

(2007 Campaign spreadsheet, rows part of 25, 28, 29, 33, 40, 41, 43, 45-49, 52; 2008 Campaign spreadsheet, rows 25-29, 32 and 34; 2009 Campaign spreadsheet, rows part of 24, 25-32)

The audit team also challenges other CFCNCA meetings and events at which Loaned Executives (LEs) and others in attendance received meals. At these meetings, LEs received training, exchanged information with each other, CFCNCA staff and other CFC volunteers about the progress of the Campaigns, or were thanked and honored at the end of each Campaign for their service on behalf of the CFCNCA. With respect to one breakfast meeting involving mostly CFCNCA staff (2007 Campaign spreadsheet, row 47), CFCNCA staff reviewed impactful practices from the previous Campaign and set strategy for the upcoming Campaign.

The costs of these meals are allowable, because CFCNCA business was conducted, thereby benefitting the CFCNCA. With the exception of the end of Campaign thank you events, the average per person cost of lunch was less than \$20 per person, some average per person lunch costs were far less.

The end of Campaign thank you lunches held once each Campaign season averaged around \$50 per person. These thank you lunches are important morale boosters to a critical constituency that has been integral in making the CFCNCA successful. To the extent that there is any OPM guidance related to these expenses, OPM has stated that award ceremonies are appropriate and that costs related thereto are legitimate Campaign expenses. In CFC Memorandum 2008-09, OPM has mentioned that award ceremony costs are reimbursable Campaign expenses. There is no OPM guidance precluding the amounts spent, and in the judgment of Global Impact, which has long fundraising experience on behalf of charities and CFCs, and a track record of obtaining excellent fundraising results for charities and the CFC, these amounts spent were reasonable for the events at issue.

The audit team also challenges the cost of a 2007 Campaign CFCNCA Christmas party held for the LEs. The Christmas party provides an opportunity for CFCNCA to thank LEs for their work and motivate them to work hard on behalf of the CFCNCA through the end of the Campaign. Again, no guidance against such an event has been issued by OPM, and in Global Impact's judgment, this event was appropriate and reasonable.

All of these events involved CFCNCA business, including training of LEs, exchange of information between LEs, CFCNCA staff and LFCC members, and opportunities to

thank LEs for their service to the CFCNCA. They provided benefits to the CFCNCA and are allowable.

3. Expenses Related to Attendance By CFCNCA Staff And LFCC Members At OPM CFC-Related Conferences Are Allowable

(2007 Campaign spreadsheet rows 21, 22, part of 24, part of 25, 26, part of 57 and 69; 2008 Campaign spreadsheet rows 18, 19, 22 and 38; 2009 Campaign spreadsheet rows 9, 10, 23, 33, 34 and 39).

The audit team questions a variety of expenses, including lodging, transportation, meals, beverages, and extra baggage fees, incurred by CFCNCA staff and LFCC representatives related to days immediately before and after their attendance at annual OPM conferences. At these conferences, attendees are trained on CFC regulations and the conduct of CFCs (the audit team does not challenge the legitimacy of attending the OPM conferences, although, as discussed later in this section, it incorrectly argues that the expenses were charged to the wrong Campaign years).

As explained herein, these charges are allowable. The staff and LFCC representatives were involved in organizing and conducting portions of the conferences, which explains why they needed to arrive early and/or stay late. In a few circumstances, CFCNCA staff or LFCC representatives not involved in organizing and planning arrived the night before to attend an evening reception held that evening and/or to ensure prompt attendance at the beginning of the conferences the next morning. The lodging fees were incurred because these individuals required rooms in which to sleep. The taxi and similar expenses were required in order to transport the individuals to and from their hotels or conference events. The excess baggage fees were incurred because these individuals were transporting CFCNCA materials to and from the conferences.

In the 2007 Campaign year, the conferences were held in New Orleans, Louisiana, and Orlando, Florida. Staff, including [REDACTED] were involved in planning and execution of the conferences. They were required to arrive one day early and stay one day after the conferences. In one case, CFCNCA staff member [REDACTED] arrived the evening before the start of a conference that started the next day to ensure his timely presence at the start of the conference. During the OPM conference that occurred in the 2008 Campaign year in Las Vegas, Nevada, CFCNCA staff [REDACTED] and CFC representative [REDACTED] performed similar functions planning and execution functions and thus were required to arrive early to and/or leave late from the conference. During the OPM conference that occurred in the 2009 Campaign year in New Orleans, Louisiana, [REDACTED] were involved in planning and execution. LFCC representative [REDACTED] arrived one day early to participate in an event related to the conference the evening before.

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CFCNCA staff expenses immediately before and after the conferences are allowable because staff were not merely conference attendees, they were involved in planning and execution, which required their attendance shortly before to set up and after the conferences were held to wrap up.

The audit team also challenges hotel expenses while at the 2007 OPM conference, including in-room meal charges for a CFCNCA staff member and the cost of a dinner attended by other CFC campaign representatives at which comparative CFC practices nation-wide were discussed (2007 Campaign spreadsheet row 22). All of these charges are allowable as they were incurred in connection with and benefitted the CFCNCA.

Finally, with respect to each of the OPM conferences, which are held in March or April, the audit team asserts that Global Impact incorrectly charged expenses to the wrong Campaign year. Following Generally Accepted Accounting Practices (GAAP), Global Impact charges the active Campaign at the time that the expenses are incurred. No regulations or guidance from OPM indicates that this practice is incorrect. In any event, even if Global Impact is found to have been wrong in following GAAP, the appropriate remedy would be reallocation of the expense to the appropriate Campaign year, not disgorgement.

4. End of the Year Award Events To Thank Volunteers Benefit The Campaign And Are Allowable

(2007 Campaign spreadsheet 55 and 56)

At the end of each Campaign season, Global Impact hosts award ceremonies to thank volunteers who worked on behalf of the CFCNCA. These ceremonies are appropriate, as evidenced by the fact that OPM has stated in 5 C.F.R. §950.105(d)(11) that CFCs should hold award ceremonies, in OPM's Proven Practices Memorandum, which states that "Victory Celebrations . . . acknowledge[] the contributions of all people who work for the campaign," and that a "meal served in conjunction with a campaign event is an allowable expense that may be paid from campaign receipts," and in CFC Memorandum 2008-09 that award ceremony expenses are recoverable. Indeed, OPM holds a similar award event for CFCs nation-wide at which food and beverages are served and awards given out. See Exhibit B.2./B.3.(4) at ¶11.

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5. Minor Expenses To Boost CFCNCA Morale Are Allowable

(2007 Campaign spread sheet row numbers part of 24, and 57; 2008 Campaign spread sheet row part of 23)

The expenses identified by the audit team include

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Not Relevant to the Final Report \$76.94 for flowers provided to a departing CFCNCA employee (2007 Campaign spread sheet row 57) and \$51.26 in “graduation items” related to a Loaned Executive training. These expenses were incurred in connection with CFCNCA business, are within the discretion of CFCNCA management to promote good will among staff and other CFCNCA workers, thereby benefitting the CFCNCA, and thus are allowable. The OPM Proven Practices Memorandum states that CFCs should “celebrate the[ir] achievement[s] through appropriate PR, including through use of trinkets “to acknowledge the accomplishment.”

6. CFCNCA Campaign Fundraising Research Expenses Are Allowable

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The OIG further questioned \$657.92 in travel and meeting expenses for receipts that were not itemized or did not have supporting documentation. OPM regulations do not require itemized receipts for all expenses regardless of amount. See 5 C.F.R. §950.105(d)(7) (Requiring itemized receipts "to the extent possible"). The expense description was included on the credit card bill and reviewed by the CFCNCA staffs supervisor. The expenses were related to cost associated with the OPM conference and are therefore, a direct benefit to the campaign.

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Not Relevant to the Final Report**

8. Charges Questioned By The Audit Team As Having Been Booked In The Wrong Year Were In Fact Charged To The Appropriate Campaign Year

(2007 Campaign spreadsheet, rows 44, 53, part of 54, 59, 65, 69; 2008 Campaign spreadsheet, rows part of 33, part of 35, 36, 37, 38; 2009 Campaign spreadsheet, rows 33-35, 38 and 39)

OPM's Office of CFC Operations has provided no guidance regarding the year for which an expense not clearly relating to a particular Campaign must be charged. Global Impact followed Generally Accepted Accounting Principles (GAAP) in booking expenses to the Campaign year in which they were incurred.

Even if the audit team was correct that one or more expenses were charged to the wrong Campaign year, the appropriate remedy would be to reallocate the expense to the appropriate Campaign year, not to require Global Impact to repay the expense. Each expense legitimately was incurred on behalf of the Campaign, and, even if OIG was to disagree with Global Impact's adherence to GAAP, the consequence of such disagreement should be reallocation, not disgorgement.

c. Global Impact Is Not Required To Maintain Primary Documentation For De Minimis Transactions

(2007 Campaign spreadsheet, rows 21, 24-26, 38-40, 45, 49, 52, 55, 56, 58; 2008 Campaign spreadsheet, rows 16, 25-27, 34, 35; 2009 Campaign spreadsheet, rows 10, 24, 33, 34)

In many places within the spreadsheet, the audit team challenges as inadequate the primary documentation receipts for certain expenses mostly involving meals.

No CFC regulation or OPM guidance requires receipts for de minimis travel expenditures. 5 C.F.R. §950.105(d)(7) states that PCFOs must "maintain[] a detailed schedule of its actual CFC administrative expenses with, to the extent possible, itemized receipts for the expenses." (emphasis added). The regulation thus contemplates that PCFOs need not require receipts in all circumstances.

In accordance with Internal Revenue Service guidelines, Global Impact does not require CFCNCA staff to file such receipts if their charges are less than the amount of IRS guidelines for which receipts are not required. During some of the audit years, this amount was \$25. Currently, the amount is \$75. Internal Revenue Service, "Travel, Entertainment, Gift, and Car Expenses," (Pub. 463) (2010) ("Documentary evidence is not needed if any of the following conditions apply Your expense, other than lodging, is less than \$75) available at <http://www.irs.gov/publications/p463/ch05.html>.

At other places, OIG acknowledges that receipts were provided but challenges them as inadequate. The documentation provided to the audit team is sufficient to establish that

the meals were incurred during the conduct of CFCNCA business and therefore the expenses are allowable.

De minimis travel expenses for which receipts were not kept or are incomplete are nevertheless allowable.

d. The Transactions Identified In This Paragraph Were Not Reasonably Incurred On Behalf of The CFCNCA Or Are Otherwise Unallowable

Global Impact has identified the following transactions from the spreadsheets included with the Draft Report and agrees that these charges did not provide a sufficient benefit to the CFCNCA to justify their legitimacy as a Campaign expense:

- 2007 Campaign spreadsheet, row 22 – a CFCNCA staff member incorrectly charged certain expenses such as dry cleaning, movie rentals and gift shop purchases, to the Campaign (\$69.15).
- 2007 Campaign spreadsheet, row 25 – A CFCNCA staff member took a Mardi Gras tour with staff and members of other CFCs while attending an OPM conference (\$17).
- 2007 Campaign spreadsheet, row 27 - A CFCNCA staff member attended a non-CFCNCA award ceremony sponsored by a third party organization and thus is not chargeable to the CFCNCA. The amount of this transaction, \$521.49, should not have been charged to the CFCNCA.
- 2007 Campaign spreadsheet, row 35 –A CFCNCA staff member incorrectly charged a movie rental during CFCNCA travel (\$15.74).
- 2007 Campaign spreadsheet, row 55 – A CFCNCA staff member incorrectly charged a movie rental for an undetermined amount during CFCNCA travel.
- 2007 Campaign spreadsheet, row 61 - A CFCNCA staff member drove from Washington, D.C. to an OPM conference in Orlando, Florida rather than flying and was reimbursed for \$956.90. The CFCNCA staff member only should have been reimbursed from CFCNCA Campaign funds for the equivalent amount of an airplane ticket plus baggage and local transportation charges.
- 2008 Campaign spreadsheet, row 30 – A CFCNCA staff member authorized neck massages for Loaned Executives in the amount of \$400. While this was intended as a means to alleviate stress during a particularly intense time in the Campaign year, Global Impact upper management determined early in 2009 that this type of perk did not portray the appropriate image for a public charity fundraising campaign and should cease. This particular charge occurred before it came to the attention of Global Impact upper management.

- 2009 Campaign spreadsheet, row part of 24 – A CFCNCA staff member incorrectly charged \$31.49 for a movie rental while on CFCNCA travel.

Global Impact intends to review with CFCNCA staff the kinds of expenses identified here so that these kinds of expenses do not occur in the future.

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Not Relevant to the Final Report**

B.3.:
The Expenses Challenged By the Audit Team Are Allowable And Reasonable

The audit team asks for additional documentation and explanations relating to a numerous Campaign expenses. It also challenges many expenses as unallowable. In section B.3. of its Draft Report, the audit team questions or challenges more than approximately 170 separate transactions, from as little as \$6.

In this Response, Global Impact provides the additional documentation and explanations requested by the audit team at column R of the spreadsheet included within Exhibit B.3.(1), which accompanies this Response. Exhibit B.3.(1) is an electronic zip file containing the additional documentation requested by the audit team.

The spreadsheet within Exhibit B.3.(1) entitled "Draft Report Expense Samples 2007-09 w Global Impact Responses" is a copy of the spreadsheet that was attached to the Draft Report by the audit team with two columns added by Global Impact: columns R and S. Additional documentation is accessible through hyperlinks within column R corresponding to the rows for which such additional documentation was requested. Column R also contains responses to issues raised by the audit team in its Column N. At column S of the afore-identified spreadsheet, Global Impact directly responds to each questioned expense with a statement as to whether the expense is allowable. If Global Impact has included an explanation beyond what is stated in Column R, it directs OIG to the particular section in this Response that corresponds to such additional explanation.

The responses in subsection a. of this Response elaborate on why expenses challenged by the audit team are allowable. There are a very few expenses that Global Impact agrees are not allowable; those expenses are identified in subsection b.

- a. The Audit Team Is Wrong As A Matter Of Fact And Law In Asserting That The Expenses Identified At B.3. Of The Draft Report Are Unallowable

In section B.3. of its Draft Report, the audit team primarily complains about meals that were provided to Campaign workers and volunteers while CFCNCA business was conducted. The audit team asserts that the meals provided no (direct) benefit to the campaign, and/or that such meals "is counterproductive to the CFC goal of collecting the greatest amount of charitable contributions possible." Draft Report at page 5.

Contrary to the assertions of the audit team, the Office of Personnel Management instructs CFCs that meals and similar expenses are allowable. OPM's "Proven Practices and New Innovations" Memorandum, which is published as part of the LFCC Manual states states:

A meal served in conjunction with a campaign event is an allowable expense that may be paid from campaign receipts. The cost would be included in campaign expenses. The LFCC Chair makes decisions about the appropriateness of CFC-sponsored dinners and luncheons.

<http://www.opm.gov/cfc/LFCC-Online/Proven-Practices.asp> (hereinafter, "OPM Proven Practices Memorandum").

The audit team also misunderstands how successful fundraising campaigns are conducted. Campaign volunteers donate their time and services. They must be recognized, honored, thanked and motivated to continue to do so and to solicit potential donors to make financial contributions to beneficiary charities. Providing meals, entertainment and other reasonable accoutrements, such as mugs and similar small but important tokens of appreciation, is critically important in conducting a successful CFC Campaign.

As more fully stated in the B.2./B.3. Response, Global Impact has an excellent track record of raising Campaign funds while keeping expenses below CFC national averages and well within national fundraising industry standards. It knows how to run effective fundraising campaigns, that, in a climate of economic challenge, nevertheless has increased campaign contributions each year it has served as PCFO.

The audit team is manifestly incorrect in its assertions as to how to raise the most money possible for beneficiary charities. Moreover, its after the fact effort to force Global Impact to repay Campaign expenses incurred in managing the CFC is arbitrary, capricious, unreasonable and contrary to law.

Below are explanations demonstrating that particular expenses questioned or challenged by the audit team are allowable. Global Impact has grouped its explanations into the following seven categories.

1. Campaign Staff and Volunteer Training Expenses, Including Meals And Entertainment Provided In Connection Therewith, Are Allowable

(2007 Spreadsheet, row 79, 83, 86, 93, 95, 97, 99, 100, 101, 102, 114, 116; 2008 Spreadsheet, row 43, 52, 55, 75, 76, 78; 2009 Spreadsheet, row 88, 89, 90, 91)

By 5 C.F.R. §950.105(d)(3), Global Impact is required to train loaned executives and other Campaign workers in methods of non-solicitation and other aspects of CFC Campaign operations, and this training must be separate from other training given for other types of campaign drives. Global Impact does so through two large trainings at the beginning of each Campaign season: its Campaign Leadership Conferences train the hundreds of Key Workers, Campaign Managers, and others who perform many solicitation and operational tasks during the Campaign season in an all day session and it trains Loaned Executives, who are the primary contact between donors and the CFC, in an intensive two full week session.

The audit team questions expenses related to the Campaign Leadership Conferences (2007 Campaign spreadsheet, rows 83, 86, 89 and 116; 2008 Campaign spreadsheet, rows 43; 2009 Spreadsheet, rows 90, 91). The expenses relating to the Leadership Conference identified by the audit team relate to the cost of using a local hotel at which over 600 CFCNCA volunteers were trained. The conference lasted a full day and in the judgment of Global Impact it was

appropriate to provide refreshments and after Conference entertainment as a means of thanking Campaign volunteers for their attendance and participation at the training and in the CFCNCA, and to ensure that they have a positive experience during the training so that they would be motivated to solicit co-workers on behalf of the CFC. This type of non-solicitation Campaign event specifically is encouraged by OPM in its Proven Practices Memorandum.

The audit team also questions costs related to the two-week intensive training provided to Loaned Executives (2007 Campaign spreadsheet, 79, 93, 95, 97, 99, 100, 101, 102, and 114; 2008 Campaign Spreadsheet, row 55, 78; 2009 Campaign spreadsheet rows 88, 89, 91), including amounts paid for trainers, food and beverages, furnishing mugs to training participants and furnishing trainee entertainment in the form of an evening tour of Washington, D.C. during the training. The audit team also questions the cost of breakout conference rooms in which small groups of trainees met to receive training on particular topics.

The Campaign depends heavily on enthusiastic Loaned Executive (“LE”) participation in the CFC. LEs are the primary contact between federal agencies and the CFC. The PCFO as manager of the Campaign must find appropriate ways to thank and motivate federal worker participants, who are critical in making the CFC successful. The importance of providing food and reasonable entertainment (the mugs cost \$7 per participant and the tour cost \$21 per participant) are sensible ways of expressing appreciation and providing motivation.

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The audit team also challenges expenses related to CFCNCA staff training, which was approved by the LFCC through a staff development line item in the budget. Staff training related to skill sets used during the Campaign benefits the Campaign in that Campaign workers perform their job duties more effectively. The Campaign expenses related to grammar and proofreading training for a CFCNCA employee who worked on Campaign operations (2008 Campaign Spreadsheet, rows 75 and 76) is allowable.

2. Expenses Related To Campaign Promotional Events Are Allowable

(2007 Spreadsheet, row 81-84, 89, 91, 92; 2008 Campaign Spreadsheet, row 44, 45, 50; 2009 Campaign Spreadsheet, row 93)

The audit team questions or challenges a wide variety of the expenses that OPM itself encourages. The OPM Proven Practices Memorandum states: **“Campaign kickoffs, progress reports, awards, victory events, and other non-solicitation events to build support for the campaign are strongly encouraged. Most successful campaigns have all or some of these kinds of events.”**

The audit team takes issue with the 2007 Campaign kick-off event, which began with an event at a Washington Nationals baseball game at RFK stadium and continued the following day in a conference during which Campaign volunteers and workers were briefed on Campaign mechanics and how to properly solicit their co-workers under OPM regulations and guidelines to participate in the CFCNCA. In the Draft Report at page 5, expenses related to this event were singled out.

The event is widely held to have been successful and a key component to the success of the 2007 CFCNCA, as evidenced by the fact that OPM gave an Innovator Award to Global Impact in large part for hosting the event that the audit team now criticizes. In explaining why OPM gave Global Impact the Award, OPM said that Global Impact had “implemented a creative strategy . . . to fuel its \$60 million [fundraising] goal.” Exhibit B.2/B.3(4). OPM continues:

[T]he campaign kickoff was held at a Washington Nationals baseball game. Prior to the game, Admiral Thad Allen, Commandant of the U.S. Coast Guard and CFC Honorary Chairman, threw the ceremonial first pitch in honor of the 2007 campaign. The Coast Guard provided the anthem singer, color guard and a Coast Guard rescue helicopter flyover. More than 600 campaign managers, loaned executives, key workers and friends attended the event The Nationals mascot, Screech, was present at the CFC-NCA Leadership Conference as well as numerous agency kickoffs and rallies.

The campaign theme has given Federal agencies and departments great latitude when it came to marketing their fund drives. But just as importantly, it provided them with an excellent opportunity to interject fun and enthusiasm in their campaigns.

Id.

Kick-off events are specifically mentioned at 5 C.F.R. §950.105(b). Such events, are among the ones that “are strongly encouraged” by OPM. OPM Proven Practices Memorandum. The event is designed “to thank and motivate key volunteers and staff for the work they will do during this year’s campaign [and] . . . provide[] a higher profile launch [for the Campaign] with media possibilities.” See “CFCNCA First Pitch,” (Document hyperlinked to 2007 Campaign spreadsheet, rows 81, 82, 84, and 91). The media value of the event was described as follows:

A news release will be developed for distribution to the local media, the press box, and philanthropic trades. Photographers from CFCNCA and the Coast Guard will be a part of the official party. The team will be videotaping the event for CFC use on the web site and elsewhere.

Id.

The audit team also challenges costs related to an award ceremony held for Loaned Executives (2008 Campaign spreadsheet, row 45). Award ceremonies specifically authorized at 5 C.F.R. §950.105(d)(11), and in CFC Memorandum 2008-09, OPM specifically identifies award

ceremony costs as ones that are CFC expenses to be recovered. Moreover, OPM itself annually hold a CFC awards ceremony at which food and beverages are provided. Each year since 2003, Global Impact has received an Innovator's Award at the OPM awards ceremony for its creative management of the CFCNCA and/or CFC Overseas. Global Impact and CFCNCA staff have attended the OPM awards ceremony. Global Impact thus strongly disagrees that the costs related to the awards ceremonies it hosts for CFCNCA participants are not allowable.

Similarly, the audit team challenges the expenses related to its Finale event, which is an award ceremony that is held at the conclusion of each Campaign year to thank and honor the around 1,000 people, volunteers, Key Workers, Campaign Managers, Loaned Executives, and LFCC members, who contribute to the success of the CFCNCA (2007 Campaign Spreadsheet, row 92, 2008 Campaign Spreadsheet, row 44; 2009 Campaign Spreadsheet, row 93). As stated, the Finale is authorized by the regulations and OPM guidelines anticipate that such costs will be recovered. See OPM Proven Practices Memorandum ("Victory Celebrations . . . acknowledge[] the contributions of all the people who worked on the campaign.").

3. Expenses Related To Report Luncheon Meetings Are Allowable

(2007 Campaign Spreadsheet, rows 70, 87, 92, 133; 2008 Campaign Spreadsheet, row 46, 48, 49, 71, 74, 77; 2009 Campaign Spreadsheet, row 92, 106, 107)

Throughout each Campaign year, Global Impact conducts luncheon meetings so that Campaign information among loaned executives, Campaign volunteers and CFCNCA staff can be exchanged. The OPM Proven Practices Memorandum specifically encourages "progress reports" among other non-solicitation events "to build support for the campaign." The OPM Proven Practices Memorandum further states that "[m]ost successful campaigns have all or some of these kinds of events."

The audit team appears to seek to apply General Accounting Office (GAO) rulings that meals are not normally provided to government workers during meetings. However, the CFC is not a government financed program. It relies principally on donated time and services of federal employees, who do so above and beyond their regular work duties. Appropriated tax dollars are not a substantial source for the CFCs' operational budget. See also Global Impact B.2/B.3. Response discussion at subsection f explaining non-application of GAO rulings to PCFO Campaign expense matters. The expenses incurred in relation to these meetings are necessary to promote attendance at the meetings and the overall success of the CFCNCA. Moreover, it would be arbitrary and capricious if OIG attempted to retroactively recover money expended for these meetings, because there is not now and has never been any prohibition against such expenditures. Indeed, the OPM Proven Practices Memorandum specifically states that a "meal served in conjunction with a campaign event is an allowable expense that may be paid from campaign receipts."

The decision to serve lunch and similar accoutrements at a strategy meeting shortly before commencement of the 2007 and 2009 Campaigns (2007 Spreadsheet, row 70; 2009 Spreadsheet, row 106), and at mid-Campaign report gatherings involving several hundred Campaign volunteers and workers, during which issues related to the ongoing Campaign are

discussed (2007 Spreadsheet, row 87; 2008 Spreadsheet, row 46, 71, 74; 2009 Campaign Spreadsheet, row 92, 107) is appropriate, because such meetings contribute to the success of the Campaign. Moreover, the LFCC approves the budget items related to these events. The expenses incurred during these luncheon meetings thus are allowable.

4. Expenses Related To Campaign Operations Are Allowable

(2007 Campaign Spreadsheet, row 354; 2008 Campaign Spreadsheet, row 89, 90, 91, 92; 2009 Campaign Spreadsheet, row 98, 100, 101, 113, 114)

The audit team questions a variety of expenses incurred in relation to operation of the Campaign. The audit team questions whether the cost of photographs taken of Loaned Executives (2007 Spreadsheet at row 354), which then were posted at the CFCNCA website along with other information about the LEs, is an allowable cost. This cost is allowable, because it is part of CFCNCA's effort to provide information to federal employees about their primary agency contact for the CFC. See also OPM Proven Practices Memorandum ("Publicity about CFC is both desirable and essential in attracting Federal donors' interest and support.").

The audit team also challenges the cost of CFCNCA office break room supplies (2008 Spreadsheet at row 89, 90, 91 and 92). Provision of plastic utensils, plates, coffee, cream and sugar for CFCNCA employees are reasonable Campaign expenses. These kinds of materials exist in virtually all office environments, including non-profit and government offices. They promote efficiency in the office environment, so that employees do not need to leave the office when they need these supplies, and they otherwise promote a positive working environment by offering a common space for employees to socialize during break times.

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spreadsheet, row 113, 114). Because the employee worked 100% from her home and the connection was designated for use by Global Impact and the employee only for business purposes, the entire cost of the internet connection was properly charged to the Campaign.

5. Expenses Related To Campaign Worker Safety Are Allowable

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6. Global Impact Properly Accounted For And Allocated A Questioned CFCNCA Expense

(2007 Campaign Spreadsheet, row 63)

At row 63 of the 2007 Spreadsheet, the audit team questions why a \$55, 871.38 March 31, 2008 accrual was allocated to the 2007 Campaign. The allocation was made to the 2007 Campaign year on the last day of the solicitation period for that Campaign year, because it was the anticipated amount of costs for the 2007 Campaign award ceremony, which was held later in 2008. That year, the Campaign expended only \$7,617.59 of the estimated amount, and the difference, \$48,253.80, was later reversed. All of this is supported by the documentation that Global Impact has attached and hyperlinked at row 63 of Exhibit B.3.(1).

b. The Expenses Identified In This Subsection Were Not Reasonably Incurred On Behalf Of The CFCNCA Or Are Otherwise Unallowable

Global Impact has identified the following transactions from the spreadsheets included with the Draft Report for which it agrees that these charges did not provide a sufficient benefit to the CFCNCA to justify their legitimacy as a Campaign expense:

- 2007 Campaign spreadsheet, row 36 – a CFCNCA staff member authorized \$280 worth of chair massages to Loaned Executives to reward their hard work. When Global Impact upper management learned of these charges early in 2009, such benefit was cancelled because it did not portray the appropriate image for a public charity fundraising campaign.
- 2007 Campaign spreadsheet, row 202 – a CFCNCA staff member accidentally voided a Campaign disbursement to a beneficiary charity, thereby incurring a \$6 bank charge. Because this was an error by a CFCNCA staff member, the bank charge should not have been paid by the Campaign.
- 2008 Campaign spreadsheet, rows 14, 194 and 199 – Third party invoices were paid late, causing late fees in the amounts of \$206.60, \$ 7.91 and \$9.66. Because these were errors by one or more CFCNCA staff members, the late fee should not have been paid by the Campaign.
- 2009 Campaign spreadsheet, row 120 – As challenged by OIG, the cost of the invoice should have been charged only 50% to the CFCNCA; accordingly, \$30.94 should not have been charged to the Campaign.

B.4.:

Global Impact Properly Accounted For Campaign Expenses

As in other sections of its Draft Report, the audit team reached mistaken conclusions based on its misunderstanding of the Global Impact accounting system. Because the audit team did not fully understand Global Impact's application of Generally Accepted Accounting Principles ("GAAP") to the CFCNCA accounts, the audit team was left to conclude in the Draft Report that it "could not determine that the PCFO properly accounted for its campaign expenses for the 2007 through 2009 campaigns." Draft Report at page 6.

The specific examples cited by the audit team demonstrate that it was not able to properly interpret Global Impact's CFCNCA books and records. Global Impact made these books and records available to the audit team during the audit process, but the audit team did not ask either the Global Impact accounting staff or Global Impact's IPA, BDO USA (the "IPA"), the proper questions that would have allowed it to understand the accounting system and avoid its initial erroneous conclusions. Herein we explain how GAAP was applied by Global Impact to its work on behalf of the CFCNCA. Thereafter, we explain fully how GAAP was applied by Global Impact staff to the expenses highlighted in the Draft Report.

In each of the years audited by OIG, Global Impact contracted with the IPA to conduct an audit of the CFCNCA. In each of these years, Global Impact received a clean audit opinion from the IPA stating that the Global Impact's accounting system was consistent with GAAP. Moreover, in each of the audited years, the IPA was lavish in its praise for Global Impact's accounting work, stating numerous times that its system were an example for other (c)(3)'s to follow.

Global Impact is proud of its accounting personnel, led by Mr. Stanley Berman, who has recently been elected as the President of the Greater Washington Society of CPAs, and its knowledgeable staff. Recognizing that the CFCNCA is the world's largest workplace giving campaign and thus presents complicated accounting and recordkeeping problems, at the outset of the OIG audit Global Impact conducted an orientation for the OIG staff even before OIG's formal fieldwork began. A copy of the agenda for that orientation is included as Exhibit B.4.(1). In addition, Global Impact told the OIG auditors that they would have full access to the IPA and its work papers. OIG never availed itself of the opportunity to ask the IPA to explain OIG's questions regarding Global Impact's CFCNCA accounting system or the specific transactions cited in the Draft Report.

a. Global Impact Follows GAAP In Estimating Accrued Expenses And Then Substituting Actual Expenses Upon Receipt Of Invoices

GI utilizes uses a standard accrual based accounting system. In the context of the CFCNCA there are generally three types of accruals that occur. They are summarized below:

- Anticipated expenses for vendor invoices that have not yet been received are accrued using estimated amounts and then are corrected to reflect actual expenses (usually in the following month) when the invoice is received by Global Impact, thereby creating a

credit in the expense accounts that were charged for anticipated expenses. The estimated accrued expenses are thereby zeroed out and the actual expenses are included.

- Major expenses such as pledge processing fees, are amortized monthly so that the financial statements early in the year are not misleadingly large.
- Audit fees for the campaign, expenses for processing campaign receipts and to distribute money to charities, and other necessary expenses the payments for which will be made between the end and the close-out of a campaign are estimated and accrued in accordance with the estimate; as explained above in the first bullet point, subsequently, prior to the close-out of the applicable campaign, adjustments to the accruals are made to correct the accrual to actual. The initial estimates are performed on a department by department, vendor by vendor basis and are as close to accurate as possible, but in any case are subsequently adjusted to actual prior to campaign close-out.

Each of the bullet points above reflects the application of customary, generally accepted accounting practices that have been deemed fully consistent with GAAP and were “verifiable” in the IPA’s audit opinions for each of 2007-09. See Exhibit B.4.(2). In addition, the methods noted in each of the above bullet points are fully compliant with OPM Memorandum 2008-09, attached hereto as Exhibit B.4.(3), in which OPM describes the methods for estimating and correcting to actual certain payments, including audit fees.

- b. Each Of The Specific Transactions Cited By The Audit Team As Examples Of Its Inability To Determine Whether Global Impact Properly Accounted For Campaign Expenses Are Easily Explainable

Following are point by point explanations of the transactions cited by the audit team as examples of its inability to determine whether Global Impact properly accounted for Campaign expenses.

1. Audit Fees. The Draft Report cites Global Impact’s method of estimating audit expenses as a violation of OPM regulations, which limit the PCFO reimbursement to actual costs of administering the local campaign. Following are the facts: Global Impact accrued \$35,000 for audit fees for the 2007 campaign audit; subsequently, Global Impact received an invoice from the IPA for \$31,154 for such fees.

Ordinarily, as described above, Global Impact upon receiving the invoice, would have adjusted the accrual to actual in accordance with the third bullet point above and would have transferred the difference between estimated and actual to the undesignated contributions for the campaign year. However, before the 2007 Campaign close-out, Global Impact was notified that OPM would be conducting an audit of the 2007-09 work papers. See letters from OPM attached as Exhibits B.4.(4).

Global Impact reasonably concluded that there would be additional IPA audit fees attributable to OIG’s audit. Accordingly, Global Impact left its original accrual of \$35,000 in place until it received the IPA’s final bill on August 3, 2010, three days after the audit of the fall 2008 Campaign was submitted to the LFCC in accordance with the Office of CFC Operations

calendar. This invoice charged the IPA an additional \$2,061 for the OIG's review of the IPA's fall 2007 workpapers (\$2,000 for services and \$61 for out of pocket and internal charges). See Exhibit B.4.(5). After paying the IPA's fees, \$1,784.60 remained, which, together with an over-accrual in the amount of \$2,784.65 for audit fees in relation to the fall 2008 Campaign, was used to reduce the outstanding amount of \$4,840.65 for fall 2008 Campaign expenses, as explained in our response to B-1.

The result of such method is fully consistent with OPM Memorandum 2008-09, which stated in relevant part: "If the cost is less than the amount withheld and the differenced is less than one percent of the gross pledges for the campaign audited, the amount should be distributed with funds for the campaign currently being distributed."

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The draft findings related to section B.4. and Recommendations 9, 10 and 11 should be withdrawn.