

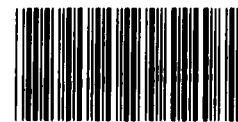
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E R R A T A

To the recipients of General Accounting Office report IMTEC-84-5, dated October 25, 1983, entitled "GSA Should Strengthen its Management and Cost Control Over ADP Revolving Fund Activities."

The following change should be made to page 3, fifth line of first subparagraph under the heading NEED FOR INCREASED COST CONTROL OVER ADP FUND ACTIVITIES: "various GAO officials" should read "various GSA officials."



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INFORMATION MANAGEMENT
& TECHNOLOGY DIVISION

B-207733

OCTOBER 25, 1983

The Honorable Gerald P. Carmen
Administrator of General Services

Dear Mr. Carmen:

Subject: GSA Should Strengthen Its Management and Cost
Control Over ADP Revolving Fund Activities
(GAO/IMTEC-84-5)

We have completed our survey of GSA's method of recovering and reporting operating expenses of the Automated Data Processing (ADP) Revolving Fund. The fund was established under the Brooks Act (Public Law 89-306, 79 Stat. 1127), to provide the economic and efficient purchase, lease, and maintenance of ADP equipment by federal agencies. The fund is reimbursable and is authorized to recover approximate operating costs for services provided through established programs. As of September 30, 1982, the fund's capitalized investment was \$43,264,000.

The Administrator of General Services is responsible for managing the fund and is required to report the results of fund activities annually to the Office of Management and Budget (OMB) and the Congress. In fiscal year 1982, the fund financed, on a reimbursable basis, about \$144 million in program activity under the Teleprocessing Services Program, Contract Services Program, Federal Data Processing Centers Program, Manpower Services Program, and Equipment Lease Program.

The Executive Director of GSA's Office of Information Resource Management (OIRM) has been delegated authority and is responsible for providing policy direction, overseeing all fund activities, and accounting for the reasonableness and appropriateness of fund operations. To insure the financial integrity of individual fund programs and to present a reasonable statement of programmatic operating expenses to OMB and the Congress, GSA policy requires that the Executive Director, OIRM, periodically review the rates established to recover approximate costs and to adjust them, as necessary, to insure that each program is financially self-sufficient.

We believe GSA needs to improve its management controls over some fund expenses. It has not properly allocated appropriate costs to the fund and has not established adequate measures to

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assess the reasonableness of some program costs. As a result, GSA is billing agencies for some costs that are unrelated to the programs they are using, and financial reports do not reflect the true performance of fund activities. In our opinion, GSA has had little incentive to improve controls because its lack of controls has permitted certain personnel costs to be inappropriately allocated to the fund. This was particularly true when other GSA sources of funding were being cut.

Although GSA is now making an effort to improve fund accountability, we believe it should implement a systematic approach to define, apportion, control, and report fund costs.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our survey objective was to evaluate the supporting documentation for the fiscal year 1982 financial statements to determine (1) if reimbursable operating costs were appropriate and properly allocated and (2) how they were determined and reported. We concentrated on the Contract Services Program because it employed the largest number of fund staff and collected the most revenue to pay fund operating costs. We also reviewed GSA central office personnel records to assess GSA's method for determining central office expenses.

We reviewed and discussed the data supporting reported income and expenses with OIRM officials responsible for the Contract Services Program and the fund as a whole. Similarly, we reviewed and discussed regional income and expense supporting data with OIRM officials in the San Francisco, Kansas City, and National Capital Regions. (These three regions were selected because they represent different operating philosophies and geographic responsibilities.) We also evaluated fund financial reports and supporting documentation for accuracy. We discussed our findings with GSA Office of Finance officials in the central office and the regions.

Because GSA officials agreed with our findings and began to initiate corrective actions, we decided not to extend the scope of our survey, but to report our findings and recommendations at this time. Our work was done between October 1982 and May 1983 in accordance with generally accepted government auditing standards.

GSA MANAGEMENT OF ADP REVOLVING FUND

OIRM is responsible for coordinating and directing GSA's governmentwide program for managing, procuring, and using ADP and telecommunications equipment and services. Three sources of funding are available for this purpose: the ADP revolving fund, appropriated funds, and the Telecommunications Fund.

The Brooks Act authorizes GSA to recover approximate operating expenses by charging user agencies for services provided through the various ADP Fund programs. GSA's ADP Fund Financial

Management Handbook (DTS P4210.2, Apr. 28, 1981), which sets forth GSA's policy on maintaining the fund's financial integrity, states that fund programs must be reimbursable and that all expenditures must be reimbursed by the benefiting agencies. GSA's policy gives the Executive Director, OIRM, overall responsibility for reviewing rates to ensure they recover appropriate and approximate operating costs for program activities. The policy states:

"All rates should be established with the objective of reaching a breakeven point for each program. Rates must recover only those costs applicable to the program. Rates for one program area may not be established to generate additional income to offset a loss in another program area."

However, this policy was not being followed because GSA was primarily concerned that the fund as a whole break even. Fund revenues from some programs were used to pay expenses relating to other OIRM programs, and expenses of the various fund activities were intermingled in establishing user rates. In effect, GSA views the fund as a source of revenue to support OIRM's overall mission, rather than as an entity to be managed and evaluated separately. In addition, GSA did not have adequate documentation to support the reasonableness of certain costs that were applied to the revenue that fund programs collected, and that were reported in the financial statements to OMB and the Congress as individual program expenses. Some expenses appeared to be inappropriate and to exceed approximate costs.

NEED FOR INCREASED COST CONTROL OVER ADP FUND ACTIVITIES

Although the following examples noted during our survey might appear inconsequential when considered individually, we believe that collectively they illustrate the need for GSA to strengthen its management and cost control over fund activities.

- GSA fiscal year 1982 documents indicated that the fund absorbed about \$800,000 for salary and benefit expenses of former National Archives and Records Service employees who were assigned to the Contract Services Program. We found, however, and various GAO officials agreed, that these employees are not performing functions in support of that program.
- Payroll records indicated that about \$110,000 in salary and benefit expenses for five employees was paid from the Excess Equipment Reutilization Program. Although these employees were officially assigned to the program, officials of the GSA ADP Fund Branch stated that no transfer of excess ADP equipment had been processed through the fund in the last 2 years and that the functions these five employees were performing were not properly reimbursable through the fund.

- Subsidiary records to the income and expense summary for fiscal year 1982 indicated that GSA did not proportionately distribute to individual programs either employees' annual leave liability costs or central office costs for office space. Our review of income and expense supporting documents showed that of the \$329,000 total annual leave costs for fiscal year 1982, about \$242,000 was charged to the Teleprocessing Service Program and the remaining \$87,000 was charged to the Contract Services Program. In addition, about \$300,000 in central office costs for office space that related to more than one fund program was charged only to the Federal Data Processing Centers Program.
- The income and expense summary for fiscal year 1982 showed that about \$455,000 was spent for salary and benefit costs of employees providing central office overhead functions for fund activities. However, according to GSA payroll records, the approximate annual cost for the nine personnel who actually performed overhead functions was only about \$320,000.
- According to payroll records, personnel costs for about 26 central office staff were charged to the Teleprocessing Services Program in fiscal year 1982. However, about six of these staff were not involved in the program at all and should have been paid from appropriated funds or other fund programs. A GSA program manager estimated that, as a result, the Teleprocessing Services Program improperly absorbed about \$195,000 in personnel costs.
- GSA's policy states that each fund program should be self-sufficient and should not generate revenue in support of other fund activities. However, the income and expense summary for fiscal year 1982 showed that the Teleprocessing Services Program generated about \$600,000 in excess revenue, of which about \$500,000 appears to have been used to offset an operating loss for the Manpower Services Program.
- Although the Contract Services Program collected about \$1 million from user agencies for central office overhead expenses, no direct central office salary and benefit expenses were charged to that program.

In addition, although the Contract Services Program generates most of the revenue in support of central office overhead and employs the majority of fund employees, GSA has not developed workload measurement criteria to insure that the program is operating efficiently. Dollar volume of business is the primary factor used to measure performance. Other variables, such as volume of work, degree of difficulty, and expertise required, are not centrally monitored even though regional staff consider them more appropriate performance indicators.

CONCLUSIONS

In the examples noted, the duties performed and the costs incurred may have been in support of OIRM's overall mission, but we believe certain of these costs are questionable in relation to specific fund program activities. Also, certain other expenses charged to the fund appear unreasonable. As a result, we believe--and the Executive Director, OIRM, agreed--that programs are absorbing inappropriate costs and that users of growing programs are paying for declining programs. Also, because expenses charged to each program are not necessarily the program's expenses, the income and expenses reported to OMB and the Congress do not portray the actual financial performance of individual programs.

REMEDIAL ACTION

During our survey, GSA officials acknowledged the need to more closely monitor the fund's activities and to improve cost controls. As a result, GSA began efforts to (1) clearly define and separate fund activities from OIRM's overall mission, (2) review costs associated with the rates charged user agencies to recover GSA costs, and (3) strengthen performance measures for individual program results.

While GSA's acknowledgement of the problems and its actions to initiate corrective measures are a step in the right direction, we believe that more needs to be done. Specifically, we believe that GSA should, in assessing the financial management of the Federal Telecommunications Fund, consider the potential for problems similar to the ones we have discussed here. In doing so, the agency should apply the following recommendations as appropriate.

RECOMMENDATIONS

We recommend that the Administrator of General Services:

- Clearly distinguish ADP-related activities chargeable to the fund from those that are a normal part of GSA's mission.
- Clearly identify the functions performed by each unit in support of fund programs and determine whether they directly support a specific fund program, or are attributable to all fund programs.
- Identify the staff performing fund functions and insure that the salary and benefit expenses for only those personnel are paid from fund revenues.
- Review costs associated with rates charged to benefiting agencies to insure they are reasonable, appropriate, and reflect approximate program costs.


- Develop a method to revise user rates based on changes in actual costs.
- Strengthen performance measures for individual program results by reviewing meaningful performance criteria in addition to dollar volume of business.

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This report contains recommendations to you. As you know, 31 U.S.C. 720 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report, and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director of the Office of Management and Budget, and to the Chairmen, Senate Governmental Affairs Committee, House Government Operations Committee, and House and Senate Appropriations Committees. We will also make copies available to other interested parties.

Sincerely yours,


Warren G. Reed
Director