DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Memorandum

Date JUN 6 1994

From Michael Mangano for June Gibbs Brown
Inspector General

Subject Report on the Audit of the Working Capital Fund Fiscal Year 1993 (A-17-93-00027)

To Kenneth S. Apfel
Chairman, Board of Governors of the Working Capital Fund

The attached report prepared by Price Waterhouse (PW), independent public accountants, under contract with the Department of Health and Human Services' (HHS) Office of Inspector General, presents the results of PW's audit of HHS', Office of the Secretary's Working Capital Fund (Fund) financial statements for the Fiscal Year (FY) ended September 30, 1993.

In the opinion of PW, with which we concur, the Fund's financial statements are presented fairly in conformity with generally accepted accounting principles, except for the effects of such adjustments that might have resulted from the Fund performing a proper physical count of its property and equipment inventory.

As noted in the internal control section of PW's report, certain reportable conditions were identified:

- The Fund did not perform an adequate physical inventory of its property and equipment. Appropriate actions, including a physical count of all Fund property, are being taken to correct this deficiency.

- The Division of Accounting Operations (DAO) did not fully reconcile its cash receipt and disbursement records with corresponding Treasury records. With the help of two Total Quality Management teams, the DAO is working to resolve all remaining differences by the end of FY 1994. Furthermore, the DAO expects that implementation of its new accounting system will eliminate the problem in the future.

- The Fund's control procedures over computer program changes made to the Standard Accounting System and the Regional Accounting System are inadequate. Both these systems are being replaced. However, the Fund is undertaking a control risk assessment of its new accounting system, which became effective in FY 1994, to determine whether similar control weaknesses exist.

The attachment to PW's internal control report discusses these weaknesses in detail and presents recommendations for improvement. While the report presents several ways in which DAO can improve the financial management of the Fund, we acknowledge their outstanding effort in preparing these financial statements.

With regard to compliance with laws and regulations, PW reported that their tests of compliance disclosed no material instances of noncompliance. With respect to items not tested, nothing came to their attention that caused them to believe that material noncompliance with such provision occurred.

Attached also is the Department's response to this report. Included in this response is a discussion of the Fund's progress towards correcting previously reported problems, impediments to prompt resolution of the problems, and the expected time frames for resolving the problems.

We want to thank you for the courtesy and cooperation your staff extended to PW and our staff during the audit. If you wish to discuss this report, do not hesitate to contact me or have your staff contact Dennis J. Duquette, Assistant Inspector General for Accounting and Financial Management Audits, Office of Audit Services at (202) 619-1122.

Attachment

cc:
George Strader
Assistant Secretary for Management and Budget

Patrick O'Rourke
Working Capital Fund Financial Manager
Division of Accounting Operations

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REPORT ON THE AUDIT OF THE WORKING CAPITAL FUND FISCAL YEAR 1993

JUNE GIBBS BROWN
Inspector General

JUNE 1994
A-17-93-00027

AUDITOR'S REPORT OF INDEPENDENT ACCOUNTANTS INCLUDING THE EXECUTIVE SUMMARY, OPINION ON THE PRINCIPAL STATEMENTS, REPORT ON INTERNAL CONTROLS, AND REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

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Price Waterhouse

Report of Independent Accountants

To the Office of Inspector General of the Department of Health and Human Services and the Board of Governors of the Office of the Secretary Working Capital Fund

Executive Summary

We have audited the accompanying Statement of Financial Position of the Office of the Secretary Working Capital Fund (the Fund), a fund within the Department of Health and Human Services, and the related Statements of Operations and Changes in Net Position, of Cash Flows, and of Budget and Actual Expenses (the "Principal Financial Statements") as of and for the years ended September 30, 1993 and 1992. Our audits were performed in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General; and Office of Management and Budget (OMB) Bulletin 93-06, "Audit Requirements for Federal Financial Statements" and included related tests of the financial reporting internal control structure policies and procedures and of compliance with laws and regulations. Our reports on the financial statements and our reports and findings regarding the internal control structure and compliance with laws and regulations follow this summary. This report also includes a description of management's responsibilities, of our responsibilities under the above standards and guidance, and of our methodologies for fulfilling these responsibilities.

In summary, we found:

- Except for the effects of such adjustments that might have resulted from the Fund performing a proper physical inventory of its property and equipment, the Fund's 1993 and 1992 principal financial statements referred to above are presented fairly, in all material respects, in conformity with generally accepted accounting principles;

- No material internal control weaknesses; however, we noted three reportable conditions described later in this report;

- No material noncompliance with the selected provisions of applicable laws and regulations tested; and

- No material conflicts with management's report on internal controls prepared under the Federal Managers' Financial Integrity Act of 1982.

Report on Principal Financial Statements

Based upon the results of our observation of the Fund's physical count of its property and equipment, which is reported in the Fund's financial statements at $4,858,000, net of depreciation, as of September 30, 1993, the physical count was not performed adequately. The Fund's 1992 physical count of its property and equipment which is reported in the financial statement at $3,949,000, net of depreciation, was observed by other auditors. We were unable to satisfy ourselves regarding the 1993 or 1992 property and equipment balances or the related depreciation expense of $1,827,000 and $2,041,000 for the years ended September 30, 1993 and 1992, respectively, by means of other auditing procedures because the records were incomplete.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to place reliance on the physical count of property and equipment, and the related effects on depreciation, the financial statements referred to in the first paragraph of this report, including the accompanying notes thereto, all appearing on pages 7 through 12 of the Report on the Audit of the Working Capital Fund for Fiscal Year 1993, present fairly, in all material respects, the financial position of the Office of the Secretary Working Capital Fund as of September 30, 1993 and 1992, and the results of its operations, its cash flows, and its budget and actual expenses for the years then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the principal financial statements taken as a whole. The Supplemental and Financial Management Information is presented by Fund management for purposes of additional analysis and is not a required part of the principal financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the principal financial statements, and, accordingly, we express no opinion on it.

Report on Internal Controls

We noted certain matters involving the financial reporting internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. We have summarized these reportable conditions below. We believe that none of these reportable conditions are material weaknesses. We also noted certain minor matters involving the financial reporting internal control structure and its operation that we reported to management of the Fund in a separate letter dated March 11, 1994.

- Improve physical inventory procedures (Condition Also Noted in 1992 Audit). In fiscal year 1993, as well as fiscal year 1992, the Fund did not perform adequate physical counts of its property and equipment inventory, which represents approximately 10 percent of the Fund's total assets. As a result, the Fund is not adequately safeguarding against unauthorized use and theft. During fiscal year 1992, the Fund took steps toward reconciling its property and equipment balance with the detailed supporting accounting records by implementing the Integrated Property Management System (IPMS) within the regional offices. The benefits of a physical inventory could not be fully realized, however, because IPMS was not fully operational by fiscal year-end 1992. The benefits continued to be compromised in fiscal year 1993 as a result of inadequate training of regional and headquarters personnel with regard to IPMS and fixed asset physical inventory procedures.

- Identify and clear balances within the Division of Accounting Operations (DAO) suspense, clearing and cash accounts more timely (Condition Also Noted in 1992 Audit). It has taken the Division of Accounting Operations (DAO) over six months to identify and post unidentified balances within the budget clearing account and suspense account to the proper cash accounts. This is an improvement over 1992, but additional improvement will be needed for the Fund financial statements to be completed and audited by the accelerated deadlines that are likely to exist in future years. At September 30, 1993, the budget clearing account balance was in excess of $4 million and the suspense account balance was in excess of $7 million. Through the end of audit fieldwork on March 11, 1994, the budget clearing account was fully posted and the suspense account balance had been reduced to $.7 million. Since the DAO aggregates its budget clearing and suspense accounts for a number of other activities, as well as the Fund, into these accounts, the extent to which undistributed balances impact the Fund's financial records cannot be established until a full distribution is performed.

- Improve computer software program change control procedures (Condition Also Noted in 1992 Audit). We noted that established program change control procedures for both the Standard Accounting System (SAS) and the Regional Accounting System (RAS) applications need improvement. This includes having adequate segregation of duties between critical functions such as programming and updating production libraries; as well as implementation of formal program change procedures, and procedures for obtaining written authorization before programs are transferred into production status. DAO did not adequately address this weakness in fiscal year 1993 because of the expected implementation of the Office of the Secretary's new financial management system ("CORE") effective October 1, 1993. However, the weakness is not a system problem, but rather a procedural control problem which does not appear to have been rectified with the implementation of the CORE system.

The attachment to this report discusses each of these control weaknesses in more detail. The attachment also provides specific recommendations on actions Fund management should consider taking.

Report on Compliance With Laws and Regulations

Our tests of compliance with selected provisions of applicable laws and regulations disclosed no material instances of noncompliance. Also, with respect to items not tested, nothing came to our attention that caused us to believe that material noncompliance with such provisions occurred.

Nothing came to our attention to indicate that the Fund's report on internal controls, dated November 12, 1993, prepared under Federal Managers' Financial Integrity Act (FMFIA), conflicts materially with the results of our understanding and tests of the financial reporting internal control structure.

Management's Responsibilities

Management is responsible for:

- designing and maintaining a financial reporting internal control structure that provides reasonable, but not absolute, assurance that the following objectives are met:
  - transactions are properly recorded and accounted for to permit the preparation of reliable and timely financial statements and to maintain accountability over assets;
  - funds, property, and other assets are safeguarded against loss from unauthorized use or disposition;
  - transactions, including those related to obligations and costs, are executed in compliance with applicable laws and regulations; and

- data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information

- preparing the financial statements in conformity with generally accepted accounting principles;

- complying with laws and regulations including those that do not necessarily affect financial transactions or financial reporting.

Auditor Responsibilities and Methodologies

Our responsibilities are:

- to express an opinion on the Principal Financial Statements based on our audits. Accordingly, we planned and performed the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and are presented in accordance with generally accepted accounting principles.

- to report the results of our related tests of the Fund's financial reporting internal control structure to the extent that its inadequate design or ineffective operation, if applicable, could significantly affect the Fund's financial statements taken as a whole.

- to report deficiencies in the internal control structure policies and procedures established to ensure the performance measure data are complete and relate to events that occurred, but not to test the underlying data.

- to report the results of our related tests of the Fund's compliance with (1) applicable laws and regulations that could materially affect the financial statements examined by us, taken as a whole, and (2) those specified in OMB Bulletin 93-06.

Our tests of applicable internal controls and compliance were performed to determine our auditing procedures for expressing an opinion on the Principal Financial Statements and to report our findings resulting from our controls and compliance testing and not to express, and we do not express, separate opinions about the adequacy of the internal control structure or compliance with laws and regulations. Our reports of findings regarding the internal control structure and compliance are included earlier in this report.

Because of inherent limitations in any internal control structure, losses, noncompliance or misstatement may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

A reportable condition is a matter coming to our attention related to a significant deficiency in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

<u>To fulfill these responsibilities, we:</u>

- obtained an understanding of the Fund's financial reporting internal control structure policies and procedures in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements;

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;

- assessed the accounting principles used and significant estimates made by management;

- evaluated the overall presentation of the financial statements;

- evaluated and tested the operation of the relevant internal control structure policies and procedures designed by management to provide reasonable, but not absolute, assurance that the above management objectives are met for the following significant cycles, classes of transactions, and account balances,

- purchases and disbursements
- revenue and receipts
- salaries and benefits
- fixed assets
- financial reporting

- obtained an understanding of the Fund's internal control structure and assessed control risk surrounding Management's objective that data in the Fund's reported performance measures be complete and relate to events that have occurred;

- tested compliance with selected provisions of the following laws and regulations that may materially affect the financial statements or are specified in OMB Bulletin 93-06,

  - Antideficiency Act
  - Federal Managers' Financial Integrity Act of 1982
  - Fair Labor Standards Act of 1938
  - Civil Service Retirement Act of 1930
  - Civil Service Reform Act of 1938
  - Prompt Payment Act
  - Federal Employees Compensation Act
  - Federal Employees Life Insurance Act of 1980
  - Federal Employees Retirement System Act of 1986

- compared the Fund's most recent FMFIA report on internal controls dated November 12, 1993 with the results of our tests of internal controls.

* * * * * * * *

This report is intended solely for the use of the Office of Inspector General of the Department of Health and Human Services and the Board of Governors of the Office of the Secretary Working Capital Fund. However, this restriction is not intended to limit the distribution of this report when it becomes a matter of public record.

Price Waterhouse

Washington, DC
March 11, 1994

ATTACHMENT TO INTERNAL CONTROL REPORT

This attachment contains recommendations related to conditions observed during our 1993 audit. We believe the recommendations will improve your overall internal control system. Certain conditions identified during the prior year audit continue to exist, and are denoted as repeated conditions herein. Our current assessment of the matters noted during the prior year audit indicates that none of these items have been fully implemented or otherwise disposed of during 1993.

Complete Physical Inventories of the Fund's Property and Equipment Inventory Should Be Taken (Repeated Condition)

Complete physical counts were not taken of the Fund's property and equipment inventory included in the Statements of Financial Position as of September 30, 1993 and 1992.

Physical inventory counts constitute an important management technique for safeguarding property and equipment and maintaining accountability for its use. Regular inventory counts confirm the proper and accurate recording of acquisitions, dispositions, and availability for use of property and equipment in supporting the Fund's activities. Physical inventory counts also serve to identify any underlying internal control problems over the custody of the assets, provide essential information to corroborate the property and equipment balance in the accounting records as presented in the financial statements, and assist in maintaining an employee awareness of the responsibility to safeguard the government's property.

The Fund's 1993 physical fixed assets inventory counts for its regional and headquarters offices were observed by Price Waterhouse personnel and we determined that the physical inventories performed at the Fund's regional and headquarter locations were either incomplete or performed inadequately. More specifically, two of the regions we visited did not perform a physical inventory during our visit, but rather, explained that they planned to perform a full count after we had left. Further, we witnessed regional staff at other locations making on-line adjustments to the Integrated Property Management System (IPMS) balance without necessarily performing an investigation; documenting the reasons for the change or that an adjustment was made; or receiving prior authorization. From this, we also noticed that in many of the regions segregation of duties could be improved with regards to procedures used in performing physical inventory counts and record maintenance.

Our observation of the Fund's headquarters office physical fixed assets inventory, revealed that the custodial officers had difficulty locating equipment for which they are responsible. More importantly; however, we determined that the Fund's Assistant Secretary for Personnel (ASPER) office fixed assets inventory records were incomplete and do not provide accurate cost information. ASPER's fixed asset balance represents approximately 50% of the Fund's entire net fixed asset balance of $4.9 million at September 30, 1993.

During fiscal year 1993, ASPER implemented NetCensus, an inventory tracking software package, to run parallel with the Department's Integrated Property Management System (IPMS). Due to known and pervasive inaccuracies within its IPMS database, ASPER believed that its time would be better served by implementing a completely new inventory system and then reconciling the results to IPMS. In addition, although IPMS is the official system for agencies/departments within the Office of the Secretary, NetCensus offers more detailed record keeping information (i.e., equipment by workstation) which ASPER plans to use as a management tool. Unfortunately, ASPER underestimated the time needed to implement NetCensus with all of the fixed asset information (i.e., identification numbers, location, carrying value, etc.), and as a result, there were no complete cost records for ASPER in either NetCensus or IPMS until after our fieldwork had been completed. In fact, although ASPER had initially planned to perform a reconciliation between IPMS and NetCensus to identify those items residing in IPMS and not in NetCensus and vice versa, this reconciliation was not completed by the end of our fieldwork testing.

Overall, there appears to be a need to provide additional training to both regional and headquarter personnel with respect to implementing effective inventory procedures; maintaining IPMS and NetCensus; and ensuring the existence of proper segregation of duties.

We discussed these matters with the Fund management and were informed that they have communicated our preliminary findings to the regional and headquarter personnel. The Fund's management plan to develop more specific inventory procedures for the regions and headquarters to follow in fiscal year 1994. The Assistant Secretary for Management and Budget (ASMB) has also hired an outside contractor to implement enhancements to IPMS and to provide additional IPMS training to both regional and headquarter's personnel. Further, ASMB, in conjunction with the Department's property managers, plans to review the current inventory procedures and responsibilities within the regional and headquarters offices to identify potential segregation of duties deficiencies, and where possible, make suggestions to rectify the situation.

Finally, Fund management stated that they are firmly committed to improving property management by reconciling the property and equipment balances to the detailed supporting accounting records on a periodic basis and by performing regular inventories to ensure that their records are in agreement.

As a result of the weaknesses noted above, we do not believe the Fund has adequately implemented procedures to ensure that its property and equipment are properly safeguarded against unauthorized access, loss, or theft.

Recommendation:

As previously noted, the Fund manager is in the process of drafting more specific inventory procedures and reporting requirements that are to be followed at each of its regional offices and will be drafting similar procedures and reporting requirements for its headquarters location. We recommend that the Fund manager ensure that these procedures are fully developed and implemented, and perform the oversight necessary to ensure that (1) all Fund property and equipment are inventoried periodically, preferably at fiscal year-end, and (2) physical inventory results are promptly reconciled to general ledger and subsidiary account balances.

Cash Reconciliations Should Be Performed (Repeated Condition)

The Fund is not fully reconciling its records of cash disbursement/receipt activity with Treasury's records of the Fund's cash activity. During our testing of the Fund's September 30, 1993 cash balance of $37 million, we noted a number of weaknesses in the Fund's accounting of its cash balance with Treasury as outlined below:

- DAO's Statements of Differences, TFS-6652, were not fully reconciled for the months of May 1993 through September 1993, with an unreconciled difference of $1.6 million existing at September 30, 1993. The year-end balance was subsequently reconciled in January 1994; however, the lack of timeliness of this reconciliation remains.

- DAO's budget clearing account and suspense account contained undistributed amounts in excess of $4 million and $7 million, respectively, at September 30, 1993. These amounts represent an over/under distribution of disbursements and receipts among various appropriation accounts as of September 30, 1993 which are accounted for by DAO. Through the end of audit fieldwork on March 11, 1994, the budget clearing account was fully posted and the suspense account balance had been reduced to $.7 million. Since the DAO aggregates its budget clearing and suspense accounts for a number of activities, including the Fund, into these accounts, the extent to which undistributed balance impact the Fund's financial records cannot be established until a full distribution is performed.

Both the Comptroller General's Title 2 and the Department of Health and Human Services' (HHS) accounting policy require that management regularly perform reconciliations between summary and detail records and independent external reports, and **promptly** record all adjustments to correct errors found.

Management of the Fund provided general explanations as to the cause of some of the differences within its suspense account; however, detailed reconciliations were not performed for the five months ending September 30, 1993. As a result, it is unknown the extent to which these differences represent timing and other reconcilable differences, or are differences which cannot be reconciled and will require adjustment of the Fund's records to bring them into agreement with Treasury's cash balances.

Recommendation:

DAO has already initiated and completed a project to investigate differences existing in its Statements of Differences and its budget clearing account through fiscal year-end. We recommend that DAO expand this effort to identify the remaining balance within its suspense account balance. Appropriate corrections should be made to the Fund's books (or Treasury's) for transactions found to be posted in error.

Going forward, DAO should perform a complete reconciliation each month to ensure that its records are kept in balance with Treasury's records. We realize that it may be necessary for DAO to estimate the actual amount of charges at year-end applicable to each user in order to promptly complete its distribution of these charges during its year-end closing. We recommend that this distribution documentation be reviewed and approved by a DAO supervisor to ensure that the distributions are in fact performed and all differences are promptly posted and any remaining differences promptly investigated and correctly resolved. In the long run, we believe that regular and timely reconciliations/distributions will reduce the level of effort required for the reconciliation of funds available at Treasury.

Program Change Controls Must Be Improved (Repeated Condition).

During our 1992 audit, we noted that established change control procedures for both the Standard Accounting System (SAS) and Regional Accounting System (RAS) applications needed improvement. The same condition existed during 1993. Control of source code is relevant to a financial statement audit to provide assurance that all production software has been tested and approved and that production software is protected from unauthorized or unapproved changes. The separation of duties between programmers, operations, and quality review personnel is fundamental to providing protection over accounting system operations.

GAO's Title 2, Appendix III, states:

> "Procedures for controlling changes should require rigorous analysis of requested changes. Program or other changes to the system in operation should be subject to the general and application-specific internal control strategies applied during the development process. After the analysis is completed and documented, user and/or ADP management should approve it before modifications are made."

The inadequacy of HHS established change controls through year-end September 30, 1993 can be illustrated through the following examples:

- There is inadequate segregation of duties between the critical functions of programming and updating production libraries. Programming was primarily performed by SAS and RAS contractors, who also have update access to the respective production libraries. Proper change control procedures should include segregation of duties between these critical functions. Additionally, contractor programmers for the Office of the Secretary's new financial management system ("CORE"), which has replaced SAS as of October 1, 1993, not only have "ALL" access to production and programs and data files, a select number of these programmers also perform computer operations functions.

- Written authorizations were not required for modifications to programs. The movement of modified SAS programs from source to production library status could be made by the contractor programmers responsible for system maintenance without the knowledge or approval of HHS user management. This control weakness is also prevalent in CORE.

- Formal change control procedures were not in place. For example, detailed specifications for requested program changes and test plans were not prepared, and evidence of approval for all requested changes was not obtained from users or a technical supervisor.

Our fiscal year 1993 audit revealed that these change management weaknesses continued to exist throughout fiscal year 1993 for SAS. Of greater concern, these conditions are present, and in many regards more serious, in CORE.

Our review of RAS, revealed that while the second and third conditions noted above have been corrected through the use of a formal change control process and authorization forms reviewed and signed by the HHS RAS Financial Systems Manager, RAS contractors continue to have unrestricted access to production libraries.

On January 24, 1994, RAS access was forced under the password management protection of the National Institutes of Health's (NIH) Resource Access Control Facility (RACF) security software. This requires minimum password lengths (4 characters) and forced password expiration (every 90 days).

Additionally, while RAS management has been provided with the optional capability to provide "default" program and data file protection under RACF, as of February 15, 1994, this protection has not been implemented.

As a result of the aforementioned deficiencies, SAS, RAS, and CORE, production software is not protected from unauthorized changes by contract programmers.

Recommendations:

We strongly recommend that programmer access to RAS production data and program files be restricted through use of formal Change Management Controls and RACF security (for RAS) to ensure that all modifications are authorized, tested, and approved prior to being placed into production.

OVERVIEW OF THE REPORTING ENTITY

OFFICE OF THE SECRETARY
WORKING CAPITAL FUND

April 1994

Department of Health and Human Services

OS WORKING CAPITAL FUND

INTRODUCTION

The Office of the Secretary (OS) Working Capital Fund (WCF) is a non-appropriated commercial type revolving fund in the Department of Health and Human Services (HHS) authorized in 1952 by 42 U.S.C. 3513 and expanded in 42 U.S.C. 3513(a) and 3513(b). Its mission is to provide consolidated financing and accounting services for HHS business-type operations involving the provision of 19 common and administrative services (described in Appendix A) to customer agencies. The WCF mechanism allows OS to bill individual HHS Operating Divisions (OPDIVs) and agencies for the services they receive. These billings are based upon actual measured usage (fee-for-service basis) thereby placing the burden of costs for services with the recipients of those services. Unlike appropriated funds, the WCF provides the flexibility to respond to changing service requirements, which will vary as OPDIV and agency program and staffing needs change.

The three primary goals for the WCF are:

- to minimize costs for the level and quality of services provided to customers determined appropriate by the WCF's Board of Governors;
- to provide for the consolidated budgeting, financing and accounting for common services;
- and to maintain the fiscal integrity of the WCF.

In FY 1987, a WCF Board of Governors was established, consisting of representatives from each OPDIV that receives WCF services and each HHS Staff Division (STAFFDIV) that provides those services. Under provisions of the WCF charter, the ASMB serves as the Chair of the Board, and the Inspector General serves as an ex-officio member. The Board is designed to permit the OPDIVs and STAFFDIVs to have a greater voice in the provision of services than in the past. The Board's objective is to identify problems in WCF operations, resolve those problems, and to encourage and identify opportunities for competition of WCF services with other service providers both within and outside the Federal Government.

The WCF Manager and staff manage the day-to-day financial operations of the Fund. The objective of the WCF Manager is to advise the Board on the fiscal implications of its policies and to review budgetary policies and procedures of the various activities to determine compliance with HHS financial policies. In addition, the WCF Manager directs the formulation of the Fund's budget, including analyzing and evaluating estimates, and monitors the execution of the Fund's budget including conducting or arranging analyses of operations to recommend improvements or to seek more efficient service arrangements.

The various WCF activities are administered on a day-to-day basis by separate STAFFDIV activity managers. Their objectives are to provide services to customer agencies; provide data necessary to support budget requests and evaluate user charges; and provide all required data and support to the Board and WCF Manager for them to meet their responsibilities.

The financial statements have been prepared to report the financial position and results of operations of the WCF, pursuant to the requirements of the Chief Financial Officers Act of 1990. While the statements have been prepared from the books and records of the WCF in accordance with the formats prescribed by the Office of Management and Budget (OMB), the statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

EXECUTIVE SUMMARY

In FY 1993, the WCF earned $107.3 million in revenues, while generating excess revenues over expenses of $8.5 million, as shown in Table 1. The $8.5 million excess of revenues over expenses was primarily generated by the Payment Management System, Reprographics and the ASMB Regional activities. The excess of revenues over expenses was attributable to an increased level of billing units coupled with expense levels that were less than expected due to personnel hiring freezes, attrition and activities anticipating administrative expense reductions. In addition, an analysis of the Reprographics activity's income recognition process resulted in a sizable one-time adjustment.

Table 1

	Fiscal Years ($000)					5-year
	1989	1990	1991	1992	1993	cumulative
Total Revenues	$74,469	$82,236	$95,192	$97,623	$107,424	$456,944
Total Expenses	76,373	77,197	89,875	93,510	98,929	435,884
Excess of Revenues over Expenses	$(1,904)	$ 5,039	$ 5,317	$ 4,113	$ 8,495	$ 21,060

Table 2 displays the net operating results for the major activities of the Fund for FY 1992 and FY 1993. The WCF will be utilizing a *more stringent mid-year review process of its financial position* to determine if any mid-course corrections are required to more closely approximate a breakeven position.

Table 2

Activity	Total Revenues		Total Expenses		Excess of Revenues over Expenses	
	1992	1993	1992	1993	1992	1993
Payroll/Personnel/EEO	$57,324	$60,933	$57,733	$59,526	$(409)	$1,407
Payment Mgmt. System	7,389	8,624	5,287	5,000	2,102	3,624
ASMB Regions	22,121	22,235	19,753	20,823	2,368	1,412
Other FFS Activities	7,566	19,359	7,516	17,307	50	2,052
Allocated Activities	7,945	0	7,943	0	2	0
TOTAL	$102,345	$111,151	$98,232	$102,656	$4,113	$8,495

While activity specific initiatives are discussed in the subsequent section, there were several Fund-wide initiatives and objectives which were accomplished in support of the WCF's primary goals to reduce costs, provide consolidated budgeting, financing, and accounting, and maintain the fiscal integrity of the Fund.

One of management's objectives last year was to complete the conversion of the WCF's activities from billings based on an allocation formula to fee-for-service based customer billings. Under fee-for-service, rates are set for each Fund activity, and customers are billed based on actual usage of service. Rates permit comparison of cost and service levels with other similar service providers, thereby creating a business-like, competitive environment, which promotes lower costs and better service. This conversion was completed during FY 1993.

A continuing objective of the WCF is to improve its management of property and equipment. During FY 1993, the regions began following procedures to ensure that the Integrated Property Management System (IPMS) property records are reconciled with official financial records on a regular basis. Similar initiatives are being completed at headquarters in FY 1994. Additionally, a contractor was retained in FY 1993 to provide more in-depth training and systems support to IPMS users. These procedures, in conjunction with the IPMS system, should allow the WCF to improve internal controls concerning custodial management of property and equipment in HHS.

Another objective for WCF management was the development of additional performance measures. Several initiatives were undertaken to satisfy this objective, including participation on a Departmental performance measure task force. WCF management began a series of performance measurement workshops with each WCF activity to discuss their individual missions, goals, and objectives, and to determine how best to measure activity performance in accomplishing these items. All major WCF activities reported at least one performance measure in FY 1993. While the majority of the performance measures are presented in the Discussion & Analysis (D&A) section, additional measures are presented in the supplemental section (WCF-SUPP) following the financial statement footnotes. A complete list of the 46 performance measures reported in FY 1993 (an increase of 48 percent from FY 1992) is reported at WCF-SUPP-7, along with an indication of the size of the activity based on revenues.

While we project our revenues to continue to expand, the inclusion of new activities into the Fund is severely hampered by the WCF's authorizing legislation, which restricts the Fund to very specific sets of activities. The language used to describe these activities uses terminology which is outdated (from 1952) and unclear, and does not reflect the major changes which have taken place in management and technology, such as automation and personal computers.

Accordingly, we have proposed a revision of the WCF's authorizing legislation. If the proposed revision is approved by Congress, it would provide the Secretary of HHS with the authority to use the WCF to provide any administrative service that could be performed more effectively and efficiently on a centralized, fee-for-service basis. This change is essential to ensure that the current and future administrative needs of the Department are met in the most efficient possible manner, and is consistent with the President's mandate for "reinventing government" and promoting efficiency.

DISCUSSION & ANALYSIS

REGIONAL PERSONNEL
SW WASHINGTON PERSONNEL

The mission of the Regional Personnel Offices (RPO) and the SW Washington Personnel office (SWP) is to provide a full range of personnel services. The goal is to provide timely, high quality and cost effective services that contribute to the accomplishment of the missions of its customers. SWP services OS and Administration for Children and Families employees located in Washington, DC. and the Inspector General's field staff (a total of about 4,300 employees). RPO services HHS's regional employees (approximately 61,000) located in the ten regional headquarters and other affiliated field locations. In addition to direct service responsibilities, four of the RPOs have oversight responsibility for the Indian Health Service personnel offices which service an additional 16,000 employees (not included in the 61,000 mentioned above).

The major functions of RPO and SWP are to provide advice to managers and employees on the full range of personnel services, including staffing, benefits, employee and labor relations, and training. The offices process thousands of actions in these areas each year.

Figure 1 illustrates that the cost per personnel account increased from FY 1992 to FY 1993 by nine percent for RPO and 19 percent for SWP. RPO's and SWP's operating costs increased seven and eight percent, respectively. The number of serviced personnel accounts decreased less than one percent for RPO and four percent for SWP. The reduction in serviced personnel accounts for SWP was largely caused by reduced activity in filling appointments. Both personnel account reductions reflect a conscious effort by management to reduce staffing levels.

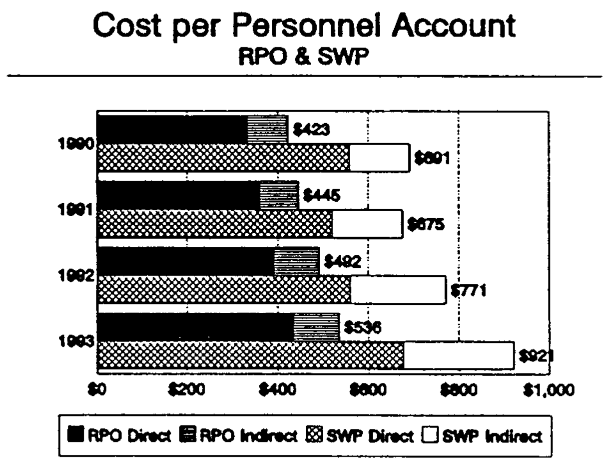


Figure 1

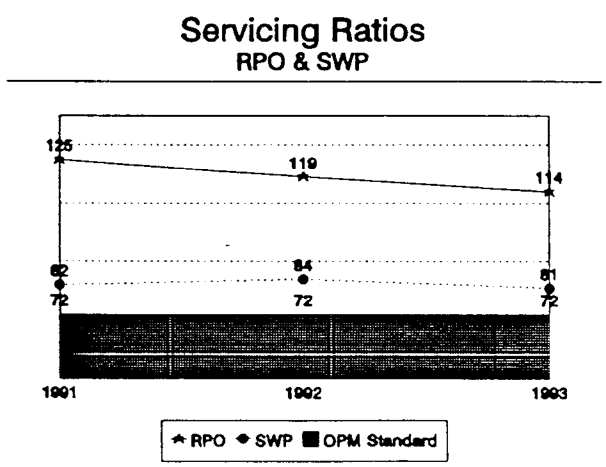


Figure 2

The ratio of serviced employees to personnel office employees is a measure of efficiency. The OPM performance standard ratio is 1 personnel office employee for every 72 serviced employees and RPO and SWP have set this ratio as their performance standard. Figure 2 shows that both RPO and SWP have exceeded that standard for the last three years. In 1993, RPO's ratio decreased due to a reduced servicing population. Because SWP services the Departmental headquarters staff, there are unique servicing needs which cause the SWP ratio to be lower overall than RPO's.

Overall Service Quality Assessment By Managers and Supervisors

Regional Personnel Services

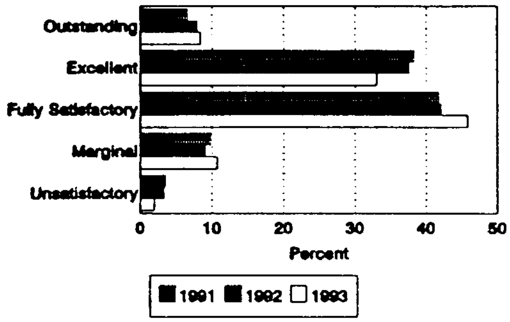


Figure 3

Overall Service Quality Assessment By Serviced Employees

SW Washington Personnel Services

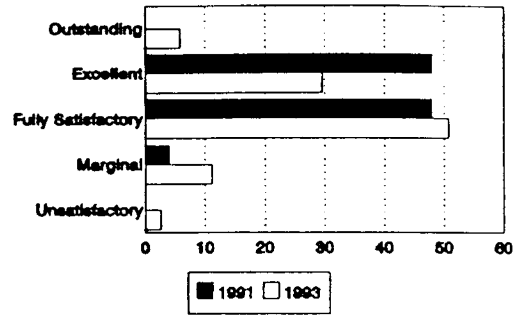


Figure 4

RPO and SWP conduct annual surveys to determine their customers' perception of the services provided. Figure 3 depicts the overall assessment of the quality of RPO's services by randomly sampled managers and supervisors. Their response rate was 55 percent. For the last three years, over 86 percent of respondents rated RPO services fully satisfactory or better. SWP conducts its own surveys, one for employees serviced and one for supervisors and managers, each sent randomly in alternate years. The employees' overall assessment of the quality of SWP's services in FY 1991 and FY 1993 is presented in Figure 4. Over 86 percent of the serviced employees surveyed in FY 1993 rated SWP services fully satisfactory or better as compared with 96 percent in FY 1991. There was a different survey response format used in FY 1991, which may explain the variance. The response rate was greater than 50 percent. The FY 1992 survey of supervisors and managers, 74 percent of which rated SWP services fully satisfactory or better, is presented in Figure 1 on WCF-SUPP-4.

The following are some of the initiatives undertaken to improve efficiency and increase customer satisfaction. Many offices now use automated systems to process merit promotion actions, thus improving timeliness and reducing the amount of RPO and SWP staff needed to process the actions. Offices are using automated open continuous announcements, eliminating the need to issue individual vacancy announcements for many positions. Offices have increased the number of onsite visits to offices located outside the regional cities. Managers and employees have found these visits to be very positive as they can get much needed information and solve many problems with the help of the personnel staff before the problems escalate. At least one office has established automated procedures for tracking workers compensation cases in the hope of getting injured employees off of workman's compensation and back to productive employment. Several RPOs have established automated telephone answering systems which allow callers to get information on such subjects as vacancies and to leave their questions for a specialist to research and answer.

The RPO and SWP are full partners with Personnel and Payroll Systems in the effort to reduce processing time for retirement actions (a separation activity). This involves steps to educate managers and employees through bulletins, seminars, and special announcements about the importance of getting retirement applications into the personnel office as soon as possible. Because the process is looked at as a whole, it is not possible to pinpoint the results of these efforts. However, the overall processing time for getting these cases to OPM continues to be above the Government wide average (see Figure 7).

PERSONNEL AND PAYROLL SYSTEMS

The mission of Personnel and Payroll Systems (P & P) is to provide personnel and payroll actions processing and pay services by utilizing an automated system. P & P's goal is to provide responsible and service-oriented personnel and payroll services to all HHS employees (more than 130,000). The principle objective is to provide services in support of HHS's missions that are timely, high in quality and cost effective. P & P's three major functions are:

- personnel transaction processing (promotions, accessions, separations, reassignments)
- time and attendance transaction processing, production of paychecks and earning and leave statements
- personnel/pay reporting such as gender and racial diversity of HHS employees and FTE usage by OPDIV and for the Department

Figure 5 illustrates how the cost per personnel/payroll account decreased slightly between FY 1992 and FY 1993. As a measure of human resource efficiency, an additional measure showing the average number of personnel accounts processed per FTE is presented in Figure 2 on WCF-SUPP-4. There was no change in this measure between FY 1992 and FY 1993.

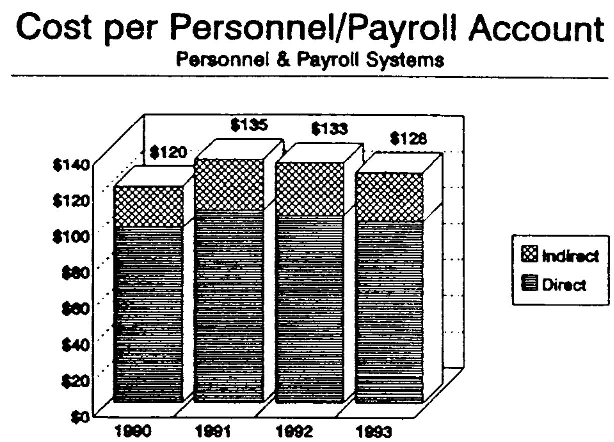


Figure 5

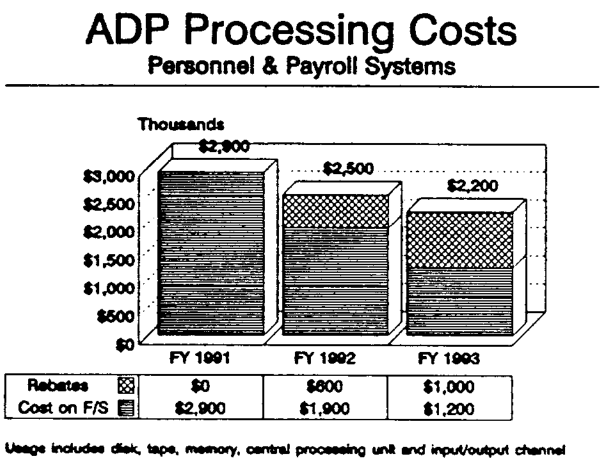


Figure 6

ADP processing costs are the largest expense of P & P Systems after salaries and benefits. Figure 6 presents a cost efficiency measure that shows processing costs have decreased over the last three years. This cost decrease is attributable to two different factors:

1 - new procedures which automatically migrate infrequently used disk files to less expensive storage media, thereby reducing the disk storage costs (which constituted almost 50 percent of the total ADP cost in FY 1991). Disk storage costs decreased 44 percent from FY 1991 to FY 1993.

2 - the ADP processing vendor has issued rebates for the last two years (see Figure 6). The rebates pertaining to the disk storage costs portion were $210,000 for both years.

ADP costs have decreased despite the ongoing development of projects, such as the new time and attendance system noted below, that require substantial ADP resource usage.

Separation Process Timeliness

Personnel & Payroll Systems

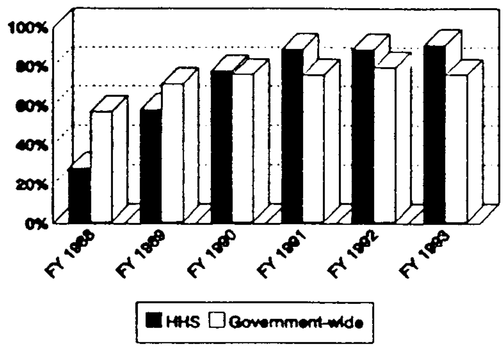


Figure 7

Figure 7 is a timeliness measure that shows the percent of HHS separation packages (averaged on a quarterly basis) submitted to the Office of Personnel Management (OPM) within 30 days after the effective date as compared to government-wide performance. Although OPM measures performance at 30, 60 and 90 days, P & P has chosen to compare their performance against the 30 day benchmark as it is the most stringent one (the one to emphasize for quality and productivity improvement efforts).

P & P has developed a personnel data base which contains six years of transaction information on each employee in HHS. Performance information furnished from this data base includes the following:

- processing timeliness by transaction type
- timeliness of error correction by transaction type
- error rejection rates by transaction type
- data validity rates by transaction type

Analyses of the data base are being performed to generate baselines for use in evaluating future performance information. Information will be available in FY 1994 to accurately assess each organization's performance.

A new PC based time and attendance system is being implemented throughout HHS (replacing a 20 year old paper and punch card process) and is expected to be completed by December 1995. This system eliminates the need for timecards and should minimize occurrences of pay related errors as input data is edited and corrected at the source prior to being transmitted to the processing center for pay computation. The new system also meets most of the recommendations related to time and attendance outlined by the National Performance Review.

The automated training request and approval system continues to be implemented nationwide. As it will be incorporated into the automated personnel system, this system will provide automated links with finance and accounting, making a training request, approval and payment a single process.

The ongoing conversion of the automated personnel system to an 'open systems environment' was undertaken due to the obsolescence of the current system and should facilitate the automation of many of the manual payroll applications, thereby providing P & P with the ability to handle downsizing without a corresponding decrease in service levels. Additionally, a study involving both P & P and their customers concluded that the customers desire to have the ability to access personnel data from any location using their own equipment and perform their own singular management processing and reporting. To date, these additional functional requirements are still being developed.

EEO COMPLAINTS INVESTIGATIONS

Individual EEO complaints in HHS are investigated by three contracting firms that service separate geographical areas of the country. The mission of the EEO Complaints Investigation activity (EEO) is to manage the contracting operations to assure compliance with the Federal sector processing and timeliness requirements as set forth in 29 Code of Federal Regulations, Part 1614 and EEOC Management Directive 110. Their goal is to have EEO complaints processed on a cost effective and timely basis.

Figure 8 illustrates the average customer cost per case and the number of cases for the last four years. Average contractor costs increased one percent (two percent less than the contractual inflation factor) in FY 1993 due to built-in contract rate increases, increased airfare and per diem costs, and the addition of investigation tasks resulting from new Federal mandates. This minimal increase is the result of efforts to manage the geographical assignments of cases, thereby reducing contractor travel costs. The number of cases increased by 20 percent in FY 1993, primarily due to the projected jump in SSA complaints. In the future, it is hoped that the use of alternative dispute resolution efforts, which use mediation to resolve EEO discrimination complaints, will reduce the number of cases sent for investigation. An additional measure showing the average number of cases processed per EEO FTE is presented in Figure 3 on WCF-SUPP-4.

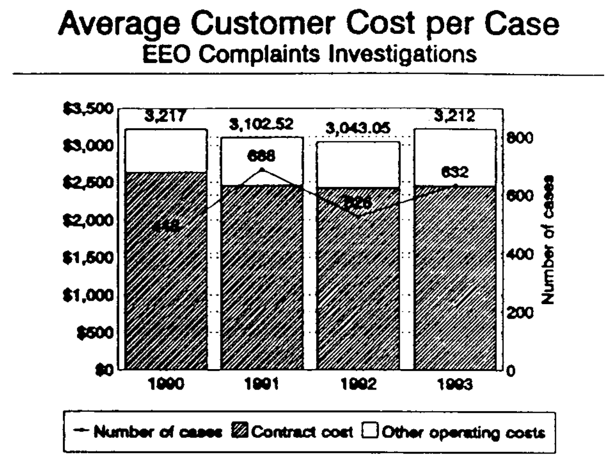


Figure 8

One initiative undertaken to improve customer satisfaction was the adoption of a data base to track complaint cases. This enabled EEO staff to provide the customer with faster and more accurate information on the status of their complaint cases as well as more reliable cumulative statistics. Expansion of this data base to the ten regional EEO managers is under consideration.

Federal law dictates that an EEO complainant must be issued the notice of appeals rights and the investigative file on or before the 180th day after the filing date. In April 1993, EEO set an internal goal of delivering the investigative files to the complainant by no later than the 150th day after the filing date. The first one year cycle under Part 1614 will be April 1, 1993 to March 30, 1994, so this measure will be reported in FY 1994.

DIVISION OF ACCOUNTING OPERATIONS REGIONAL DIVISIONS OF FINANCE REGIONAL ACCOUNTING SYSTEM

The WCF has two entities whose mission it is to provide accounting, fiscal and financial reporting services - the Division of Accounting Operations (DAO) and the regional Divisions of Finance (DOF), whose headquarters component is the Regional Accounting System (RAS). DAO services OS, the Administration for Children and Families (ACF), and the Administration on Aging (AoA) and the DOFs service OPDIVs and STAFFDIVs in the ten regions. The primary goal of these financial transaction processing activities is to perform transactions timely, accurately and efficiently.

DAO's and the DOFs' major functions are as follows:

- maintain funds control
- make vendor payments
- record, reconcile and report financial activity
- debt collection
- provide travel reimbursements and advances
- monitor grant award programs for its customers

The following ten performance measurements in FY 1993 demonstrate how DAO and the DOFs achieved their stated goals of timeliness, accuracy and cost effectiveness. FY 1993 is the initial year for capturing data on eight of the ten performance measurements. Efforts that have been implemented at DAO in FY 1994, including the implementation of a new accounting system and the establishment of TQM process action teams (assigned to look at specific processes), which are expected to improve DAO's accountability and performance in many of the areas noted below.

1. Timeliness of Payments. The Prompt Payment Act requires executive departments and agencies to make payments on time and to pay interest penalties when payments are late. In FY 1992, OMB established a minimum standard of 95 percent as a government-wide goal. A total of 16,374 (for $72 million) and 14,345 (for $56 million) vendor payments subject to the Prompt Payment Act were processed nationwide in FY 1993 and 1992, respectively. The percentage of payments made on time in DAO was 97.15 percent (up from 95.95 percent in FY 1992) and the on time payments for the DOFs was 98.66 percent (up from 97.37percent in FY 1992).

2. Timely Posting of Inter-Agency Charges - Average Posting Time. The standard practice at DAO has been to record inter-agency charges via Treasury's On-line Payment And Collection system (OPAC) in a "clearing" account (see # 5 below) pending receipt of supporting documentation and/or time to distribute charges to the appropriate accounts. This has been a long-standing problem which has been cited in FMFIA reports and recent audit reports. During FY 1993, DAO gave high priority to clearing OPAC charges that had remained in the clearing account for extremely long periods of time. For the last six months in FY 1993, DAO's average number of days to distribute costs was 69; however in October 1993, that number had decreased to 27 days. The DOFs processed OPAC charges on an average of 3.5 days from receipt of the OPAC transaction. Currently, the OPAC clearing account process is being reviewed and new operating procedures for distribution of charges are being developed.

3. Timely Travel Payments - Average Process Time. The Travel Management System (TMS) is an automated system used to authorize, control and process all travel and transportation documents and transactions. TMS provides for electronic approvals of orders and reimbursements, with all supporting documentation maintained at the administrative office. The system is designed to issue a reimbursement check within 24 hours after the finance office has approved the voucher. In FY 1993, all DOFs were processing travel activity utilizing TMS and DAO was approximately 90 percent complete in implementing the system at the end of the fiscal year. A statistical sampling of processed vouchers indicate an average time from when a voucher was electronically reviewed to the date a third party draft was issued to the traveler at 3.5 days by the DOFs and 2.7 days by DAO.

4. Timely Reporting to Central Agencies. In 1993, the on time rate of reporting to central agencies for DAO was 100 percent. These reports included the SF 224s, SF 220-9s, and the SF 133s. The on time rate of the DOFs for their submission of the SF 224s to Treasury is 99.2 percent.

5. Percent Fully Reconciled Budget Clearing Accounts. The Budget Clearing Account has been utilized in DAO as a control account for OPAC charges until distribution of charges can be made (see #2 above). There has been a 27 percent reduction in outstanding OPACs from the previous fiscal year. Of the 179 items (this number was 243 at the end of September 1992) remaining in the Budget Clearing Account at September 30, 1993, 111 items (61 percent) represented September activity. As noted in #2 above, this process is being reviewed and the use of this account to post OPACs on an interim basis is expected to be eliminated prior to the end of FY 1994.

The Budget Clearing Account was 99 percent reconciled for the DOFs at September 30, 1993. Due to the minimal OPAC activity processed in the regions, the DOFs do not utilize this clearing account for controlling and processing OPAC charges.

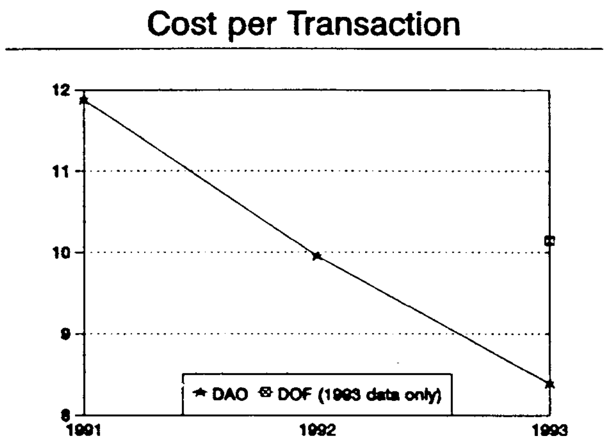


Figure 9

6. Cost Per Transaction. See Figure 9. During FY 1992, DAO's transactions increased due to the additional ACF accounting functions for salary and expense activities that were transferred in. In FY 1993, the program accounting activities of ACF were transferred in to DAO generating an even greater number of transactions. The DOF FY 1993 rate will be used as a baseline figure for future reporting and analyses.

7. Interest Penalty - Number & Dollar Amount. This measure is also a consequence of the Prompt Payment Act noted in #1. The FY 1993 frequency rate for late payment interest penalties paid in DAO was 0.46 percent, and for the DOFs the rate was 1.27 percent. Figure 10 shows that, while the number of penalties increased in FY 1993, the amount of penalties continued to decrease. The amount of penalties decreased 93 percent over the last four years and the number of penalties decreased 59 percent over this same period.

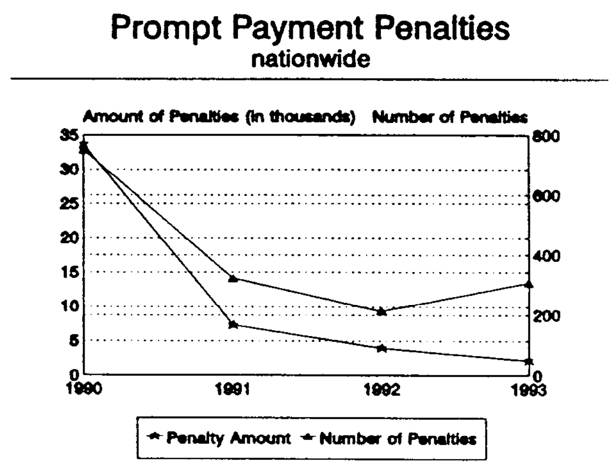


Figure 10

8. Percent Of Collections to Current Receivables. As Figure 11 illustrates, there has been a net increase of 90 percent in accounts receivable over the past three years (receivables are primarily from grant recipients). This increase was primarily due to additional receivables from ACF being transferred in during FY 1993. There was a corresponding 85 percent increase in collections.

Figure 12 shows the breakdown of percentage of collections to receivables between DAO and DOF as well as the breakdown of receivables within DAO. The overall percentage of collections to net receivables is 14.25 percent. However, of the total $808 million in net receivables, $390 million (48.2 percent) were under appeal and collection action has been suspended.

The following practices have recently been adopted to improve timely debt collection of the collectible delinquent receivables: collection by offset of current grant award, assessment of late payment charges as allowed by government-wide and program-specific statutes, and enhanced communication between the program offices and the accounting office. DAO is also implementing an automated debt collection system in FY 1994 that will greatly enhance tracking, collection and reporting of the overall process.

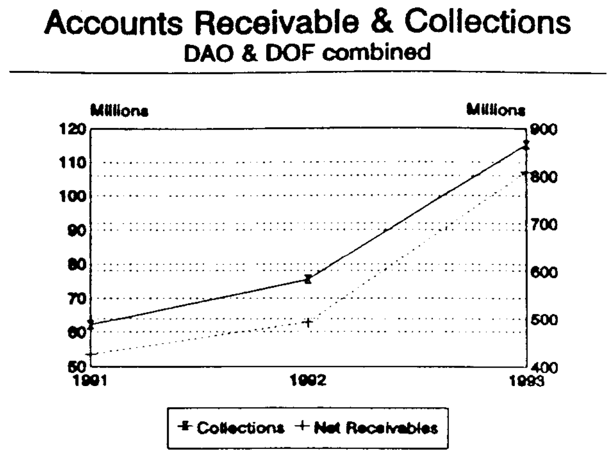


Figure 11

9. Percent Of Fully Reconciled Cash Reconciliations. The goal of cash reconciliation activities is to avoid fraud, abuse and negligent use of government funds and to ensure the accuracy of financial statements. At the beginning of FY 1993, goals were established in DAO to have cash fully reconciled for all appropriations. This required a concentrated realignment of resources to have all staff committed and responsible for achieving total reconciliation. Regular time had to be freed from other tasks and overtime was approved specifically for this effort. Although progress was made, a substantial number of cash differences continue to be reported monthly. Many of the differences are attributed to cut off dates with Treasury and other systems (such as the Payment Management System and the Payroll System). At September 30, 1993, DAO and the DOFs had a total of $12,636,554 (out of $9,694,016,755) in differences that were over 90 days old. This represents an unreconciled balance of 0.13 percent. At the end of FY 1993, 53 percent of the outstanding cash items were less than thirty days old.

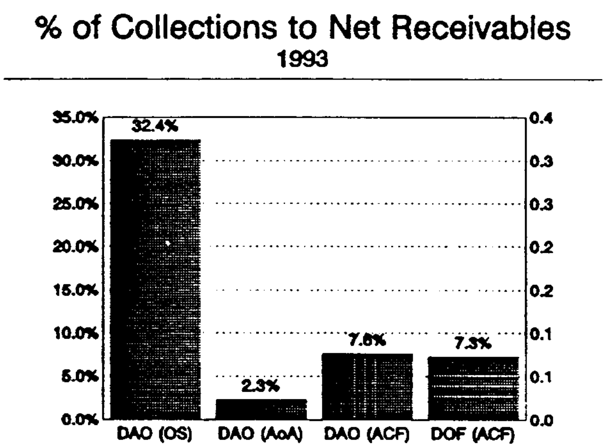


Figure 12

Currently, the cash reconciliation process is being analyzed to determine the sources generating the various types of differences. Additional reports have been generated or modified from the accounting system to help identify the sources of differences and to pinpoint where corrective action is needed. New operating procedures to reduce the number of unreconciled cash items are to be developed. The new accounting system implemented at DAO in FY 1994 is expected to further improve this process. Processes to capture the data necessary to report the number of unreconciled items are being developed. In FY 1994, DAO and the DOFs plan to also report the percentage of prior period reconciling items that are still unreconciled after 90 days.

Suggestions provided by the FY 1991 auditors of the WCF have been adopted in the area of consolidating DOF cash reconciliations with DAO to realize total reconciliation at the general ledger level. In FY 1994, a new procedure is planned to consolidate both the DAO and DOF reconciliations. This new procedure should ensure control over the consolidated general ledger.

10. Percent Of Fully Reconciled Suspense Accounts. The suspense account is maintained by DAO but consists of amounts entered into it by the DOFs, the Payment Management System and Central

Payroll as well as DAO. Unlike the clearing account noted in #5 above, where DAO has full control of the account, this suspense account is monitored by DAO, with follow-up and corrective actions required by DAO and the various external users.

The balance of this account as of September 30, 1993 was $4.1 million which is 98 percent less than this account's balance of $145.8 million at the end of FY 1990 and 64 percent less than the previous year's account balance. This account balance has been analyzed by the various activities that use this account with the result that an unreconciled amount of $3.2 million (that had been unreconciled for several years) was transferred to the U.S. Treasury in FY 1993. The majority of the unknown amounts that have been transferred to Treasury over the past 2 year have pertained to non-DAO activities.

The year end balance in this account includes an unknown amount that has been held in the account temporarily until further analyses can be performed. DAO's goal is to perform additional analyses prior to the end of FY 1994 with the remaining unknown balance being transferred to the U.S. Treasury.

DIVISIONS OF ADMINISTRATIVE SERVICES

The Divisions of Administrative Services (DAS) provides administrative services for all HHS activities co-located at regional headquarters offices. DAS also provides limited administrative services to the IG's field offices and the Public Health's Federal Occupational Health clinics.

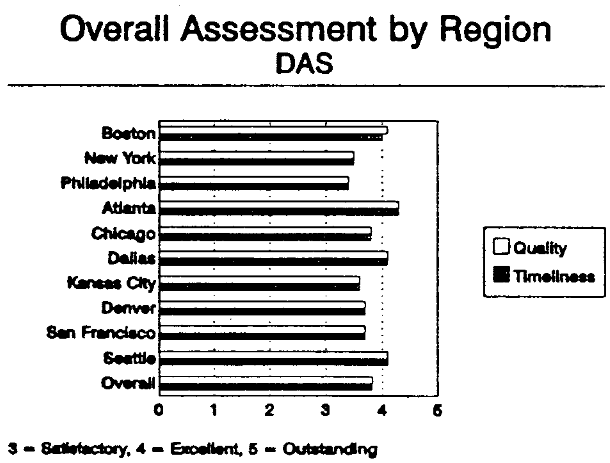


Figure 13

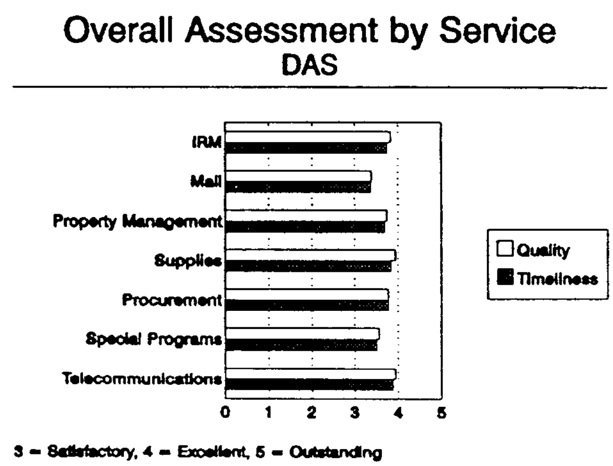


Figure 14

DAS conducted a survey for the first time in FY 93 to measure their customers' perception of the services DAS provides and received a 76 percent response rate. Figure 14 shows the overall assessment of the services provided and Figure 13 presents the overall assessment by region.

DAS has been examining ways to provide its services at the lowest possible cost through increased automation. In the area of procurement, the implementation of the BankCard system for making small purchases was expanded in many of the regional offices with an increased number of cards being put into circulation. In FY 93, additional regions implemented the Regional Paperless Acquisition Support System (RPASS) designed as an interactive electronic small purchase procurement system operating on a local area network.

DIVISION OF COST ALLOCATION

In FY 1993, the Federal Government awarded about $12 billion to state and local governments, colleges and universities, hospitals and other nonprofit organizations. These funds were used to reimburse the organizations for administrative expenses they incurred to operate Federal programs (such as Medicaid, Food Stamps, medical research, Head Start, School Lunch, Job Training Partnership Act, amongst others) that are administered by these organizations. The organizations assign joint administrative costs, such as the expenses required to operate an accounting or budget office, to the Federal programs that they administer and it is the government-wide responsibility of the Division of Cost Allocation (DCA) to ensure that these costs are then assigned to all Federal programs in a fair and reasonable manner.

DCA's mission is

- to approve incurred joint costs for reimbursement by the Federal Government and
- to distribute these allowable joint costs on rational bases amongst Federally sponsored programs.

Their goal is to negotiate the approval of cost allocation plans and indirect cost rates in a timely manner and, also, to protect the Federal Government from overcharges to their programs. The cost allocation function conducts over 2,000 negotiations annually (see Figure 4 on WCF-SUPP-4).

The three basic objectives of DCA are:

- to account for 100 percent of each joint cost
- to identify and eliminate costs which are not allowable on Federal programs
- to distribute allowable costs on rational bases to government departments, programs, or activities.

In 1990, a consolidation plan was implemented that reduced the ten regional offices to four to obtain more efficient operations and to create a critical mass of expertise to handle increasingly complex issues. During the last ten years, full-time staffing was reduced from 70 to 52 positions, a 26 percent decrease.

However, during this period, DCA made significant gains in reduced indirect costs for a total cost savings/avoidance of over **$5 billion** in ten years (see Figure 15). In FY 1993 alone, DCA's cost negotiations saved the Federal Government $805 million, over $15 million per negotiator (see Figure 5 on WCF-SUPP-4) while incurring about $5.8 million in operating costs. Figure 16 illustrates the return on investment for the last three years. The $805 million cost savings/cost avoidance consisted primarily of negotiating lower future indirect cost claims by grantees and contractors. However, of this $805 million, $25 million were cash collections from excess claims in prior periods (see Figure 6 on WCF-SUPP-4).

Total Cost Savings vs. Full-Time Staff
Ten Years Ended September 30, 1993

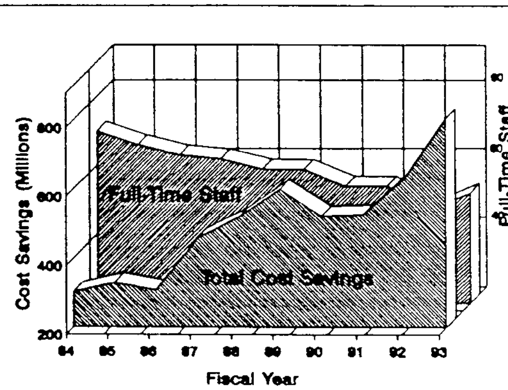


Figure 15

Return on Investment

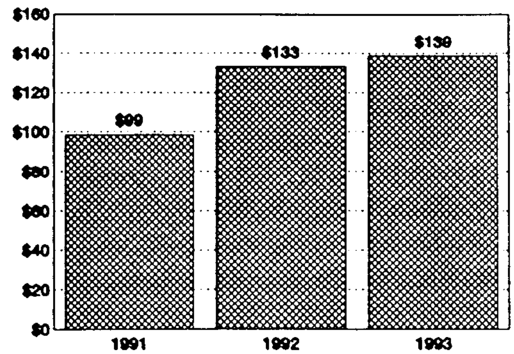


Figure 16

Overall Assessment of the Quality of Cost Allocation Services Provided

San Francisco office

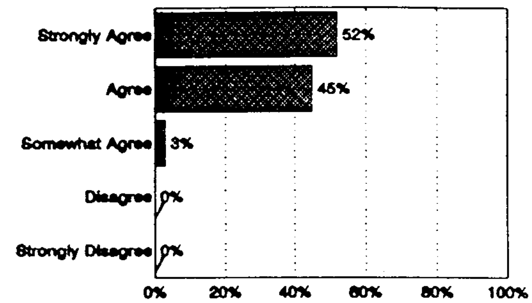


Figure 17

A customer survey was performed in the San Francisco office. The survey had a 68 percent response rate (see Figure 17). This survey has been helpful to DCA management in understanding what the customers think about its services. During the next year, surveys will also be performed in the three remaining offices to determine how DCA's customers view government services, what problems they encounter, and how they would like services improved.

To order to more efficiently target the efforts of the DCA staff, a policy was implemented in mid FY 1993 to make limited reviews and negotiate multiple year rates when the risk of loss to the Federal Government is not great or when previous grantee's cost proposals indicated compliance with Federal cost principles. By implementing the limited review policy, the backlog of cases decreased 33 percent between 9/30/92 and 9/30/93, providing the grantees with effective indirect cost rates and reducing the backlog to a manageable level. Furthermore, critical cases, those over 12 months, decreased 80 percent (see Figure 7 on WCF-SUPP-5).

In line with the National Performance Review, DCA is currently working on a project with the OPDIVs, OMB and State officials to provide State and local officials greater flexibility and make the ADP cost allocation methodology less problematic in exchange for increased accountability and program results and improved performance.

DIVISION OF AUDIT RESOLUTION

The mission of the Division of Audit Resolution is to review audit report findings on grantee and contractor organizations which effect the programs of more than one HHS OPDIV or Federal agency and resolve the finding. Their goal is to resolve these findings efficiently, effectively and in a timely manner. These types of findings are commonly referred to as "cross-cutting" audit findings and generally result from single audits or organization-wide audit reports of grantees and contractors (e.g. state and local governments, universities, etc.) that administer programs financed by more than one HHS OPDIV and/or other Federal agencies. Typically, cross-cutting audit findings involve deficiencies in the grantee's or contractor's overall accounting system, internal controls or other management systems.

The Division's objective is to comply with the time standards for completing resolution actions that were established by P.L. 96-304 and OMB/HHS policy. These time standards dictate that all audit findings are to be resolved within six months of the issuance of the audit report by the Office of the Inspector General (OIG). Those findings that cannot be satisfactorily resolved can be appealed by the entity being audited. The Division was involved with seven appeals in FY 1993 which amounts to an appeal rate of about 1 percent.

The Division has had a 166 percent workload increase since FY 1985 and a 20 percent increase since FY 1992 (see Figure 8 on WCF-SUPP-5 which also includes the average number of audit findings resolved per FTE). Prior to FY 1992, the Division's responsibilities focused on organization-wide audits of State and local governments conducted under the Single Audit Act and OMB Circular A-128 "Audits of State and Local Governments." The Division's workload increased substantially in FY 1992 and FY 1993 as a result of OMB's issuance of Circular A-133 "Audits of Institutions of Higher Education and Other Nonprofit Organizations." Issued in March 1990, this Circular establishes organization-wide audit requirements for universities and nonprofit organizations that are comparable to those established by the Single Audit Act and A-128 for state and local governments. Further workload increases are expected in FY 1994 and 1995 as grantee compliance with the Circular increases.

The Division's cost per case increased from $906 to $920 in FY 1993 primarily due to an increase in GSA rent payments due to a more equitable allocation of occupied space. Figure 9 on WCF-SUPP-5 presents direct and indirect operating costs for the past two years.

OS MAIL

The mission of the OS Mail operation is to provide mail service at HHS headquarters. Their goal is to provide their customers with cost effective mail service, rapid handling and accurate delivery of mail. OS Mail also operates the locator service that provides information to those who call the Department seeking the telephone numbers of HHS personnel or programs.

OS Mail's major functions are:

- analysis of general Departmental mail and subsequent direction to the proper offices
- office-to-office mail delivery at HHS headquarters
- electronic scan of incoming mail (approximately 6,000 pieces per day) for security and safety purposes
- bulk mail pickups and deliveries to HHS buildings in the Washington area

1993 Customer Satisfaction Survey
OS Mail

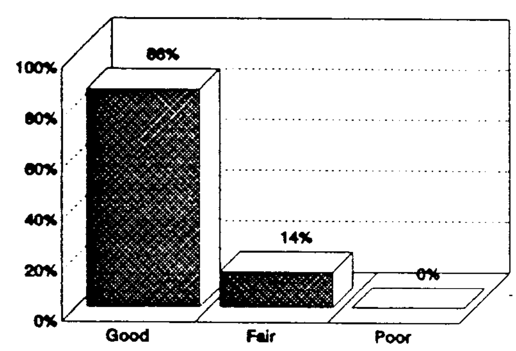


Figure 18

Incoming accountable mail (i.e. registered, certified, express, and insured) receives priority over all other mail. Approximately 3,000 pieces of accountable mail are handled per month.

Outgoing mail is segregated by postal class so that the lowest postal rate is incurred. Regional mail is consolidated and sent in one pouch to reduce costs.

Figure 18 shows the results of OS Mail's survey of 142 customers to determine their perception of the services provided to them. The response rate was 51 percent. See Figure 10 on WCF-SUPP-5 for additional results of this survey.

REPROGRAPHICS

The mission of the Reprographics Branch is to provide comprehensive print services at HHS headquarters. Reprographics' goal is to provide its customers with the lowest cost duplicating, printing and visual aids services by using the most cost effective source of in-house services, the Government Printing Office (GPO), and local contractors. Reprographics performs three major functions:

- Cost per copy program - operates two central self-service copy centers in addition to 91 smaller convenience copiers dispersed throughout the SW Washington Complex.
- GPO services - determines whether customers' requests can be performed more efficiently and for a lower price in-house or at the GPO, handles all aspects of GPO work processes for the customers.
- in-house operations - performs all large scale copy jobs that are technologically possible, bindery work, three-hole punching, stapling and inserting covers in copy jobs

In FY 1993, Reprographics also began a program to provide several auxiliary services such as framing of certificates and pictures. There were minimal revenues for this activity in FY 1993.

The overall cost per copy, in the first year of measurement, was 3.2¢ per copy. Currently, Reprographics is developing cost allocation procedures so that it can present cost per copy by machine type in FY 1994.

The on time rate is a timeliness measure for print requests completed in-house. This measure gauges the percentage of jobs completed by the requested date. For the last five months of FY 1993, 99.7 percent of 662 jobs have been completed on or before the requested date. The only late jobs were completed within one day after the requested completion date.

In FY 1992, Reprographics reported that it planned to conduct a customer satisfaction survey. However, the survey conducted was as part of a larger organizational group survey and the resulting response data did not contain sufficient specificity on printing and duplicating services to be useful. Another customer satisfaction survey specifically targeted for Reprographics Branch customers will be conducted in FY 1994. Reprographics also reported that it planned to report the copier uptime rate as a measure of the equipments' reliability and availability. Some work has been done to develop this measure; however, it will not be reported until FY 1994.

Reprographics' management has been examining cost saving measures in FY 1993. Visual aid services are no longer performed in house; they are now procured from GPO or local contractors. A $42,000 cost avoidance was achieved by discontinuing a lease on the visual aid equipment. In addition, Reprographics has established the following objectives, in order to achieve its stated goal of providing the highest quality service to its customers at the lowest cost possible:

- reduce rent expense by 15 percent by returning approximately 1,400 square feet of print shop space
- improve the accuracy of punching and stapling in FY 1994. Punching accuracy and delivery should be improved by the use of a new machine that allows in-house (as

opposed to service call) adjustments. Electric staplers have been purchased for use in the in-house bindery work which are faster than the old manual hand held ones.

- replace 12 of the 108 copiers with newer technologically advanced, energy efficient copiers. The proposed new copiers provide for two-sided copying which should result in a ten percent reduction in paper use. There should also be reduced maintenance costs with the new machines as well as more efficient use of supplies due to machine design improvements.
- adopt new technologies such as providing ultra high speed duplicating via the Banyan LAN. A two month trial period to ascertain cost and efficiency will be conducted starting July 30, 1994.

Reprographics' goal for FY 1994 is to reduce the overall cost per copy by 12.5 percent to 2.8¢ a copy.

UNIQUE SUPPLIES

The mission of the Unique Supplies activity is to purchase, store and distribute customized items for HHS (such as letterhead, envelopes, flags, seals and HHS forms) by operating a fee-for-service centralized purchasing, distribution and storage storeroom. Unique Supplies' primary goal is to accurately and promptly provide unique supplies to customers at the lowest possible unit cost.

Also, for two years Unique Supplies has had a direct delivery program that distributes forms to customers directly from the printers. This function now constitutes 70 percent of Unique Supplies' revenues. Since only emergency amounts of these forms are now stocked, storage needs have been reduced and Unique Supplies was able to reduce their rent expense in FY 1993 by 47 percent by returning approximately 1,475 square feet of storeroom space. In addition, much less staff effort is required. Unique Supplies' function for the direct delivery program is to accumulate the customers' requisitions (generally on a quarterly basis), forward the requisitions to the WCF's Reprographics activity and respond to any problems the customers have with these orders.

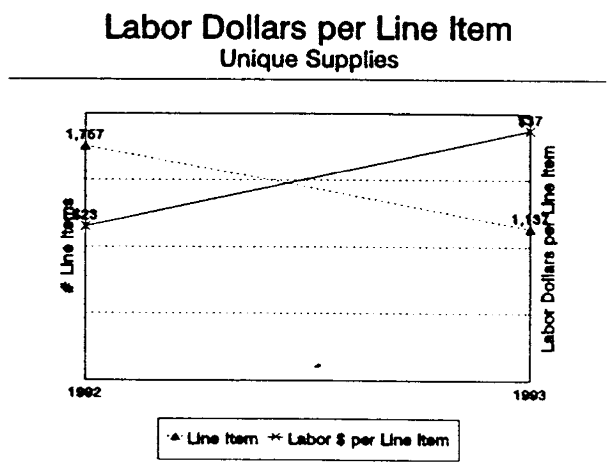


Figure 19

Figure 19 shows the labor dollars per line item for FY 1992 and FY 1993. The cost per dollar sales measure is the ratio of inventory only related costs to sales and provides an indication of the activity's operating efficiency. The cost per dollar sales decreased from 1.17 in FY 1992 to 1.04 in FY 1993, primarily due to the reduced rent mentioned above.

In FY 1992, Unique Supplies reported that it planned to implement the following performance measures:

- Fill rate
- Order cycle
- Inventory accuracy rate
- Customer satisfaction
- Shipping accuracy rate

Overall Assessment of the Quality of Services Provided

Unique Supplies

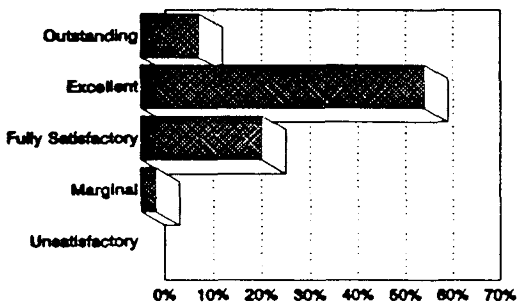


Figure 20

These measures were recommended in a supply performance measure study done by a private consulting firm. The customer satisfaction survey was the only performance measure accomplished in FY 1993. Unique Supplies plans to also report fill rate and order cycle starting in FY 1994. Figure 20 depicts the customers' overall assessment of the quality of services provided. Additional results for customer satisfaction of timeliness, accuracy, cost and days to process are presented in Figures 11, 12, 13 and 14 on WCF-SUPP-5 and 6.

COOPERATIVE ADMINISTRATIVE SUPPORT UNITS (CASUs)

The CASU program is an interagency initiative of the President's Council on Management Improvement to promote sharing of common administrative services thereby reducing costs and improving accessibility and productivity in local Federal complexes. The goal of the CASUs is to provide less expensive, more accessible and better-quality administrative services to Federal agencies through consolidation and economies of scale.

KANSAS CITY DOWNTOWN CASU

In FY 1993, the Kansas City Downtown CASU provided 11 services on a fee-for-service basis, in which an agency is only charged for the CASU services it actually uses.

The Kansas City Downtown CASU's objectives are to:

- improve current services
- research possible new services
- market the CASU to non-participating agencies in the Kansas City metropolitan area

To ensure that the CASU is achieving the first two objectives, an annual customer satisfaction survey was sent to all participating agency directors and appropriate agency administrative personnel. The survey was designed to provide CASU management with information to determine whether each service was cost efficient, beneficial, and fully utilized. Based on a five point scale, CASU services received an average rating of 4.5 and 4.3 in FY 1993 and 1992, respectively. In addition, every service provided by CASU received an average rating of above four on the five point scale. The response rate was 52 percent in FY 1993.

To improve customer satisfaction, the Tenant Board meetings changed from being held on a quarterly basis to being held on a monthly basis in FY 93. Additionally, the CASU Director met individually with each Tenant Board member prior to meetings to discuss any problems or concerns. Meeting more frequently has helped improve communication.

A comprehensive marketing package, explaining each service offered by the Kansas City Downtown CASU is sent to interested agencies; additionally, an informational card, briefly highlighting a particular CASU service, is sent out each month to various Federal agencies in the Kansas City metropolitan area. Results from the marketing efforts are evidenced by the fact that nine new agencies began participating in the CASU in FY 1993.

Figure 21 shows the estimated savings and cost avoidances for its participating agencies in FY 1993 and 1992. This graph reflects monetary savings only, arising primarily from the consolidation of personnel and space and economies of scale.

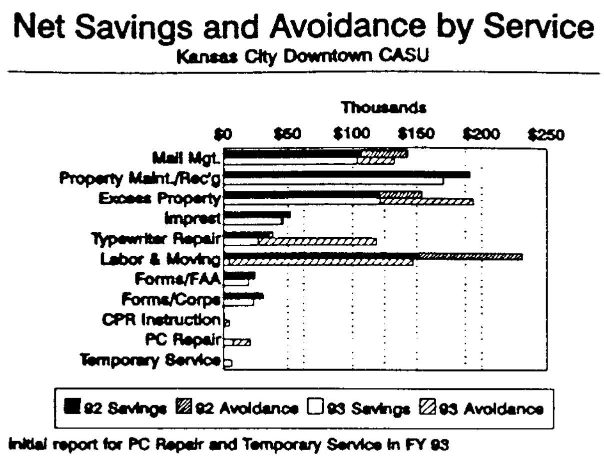


Figure 21

NEW YORK JAVITS BUILDING CASU

In FY 1993, the New York Javits Building CASU (NY CASU) provided 11 services to approximately 40 customer agencies; seven of which are the major users of CASU services.

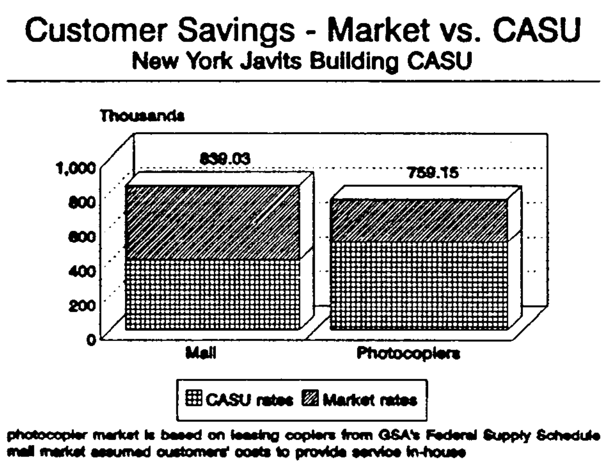


Figure 22

To assess how the NY CASU is doing its job, a survey form was issued to 20 customers (including the major customers), 70 percent of whom responded. Based on a five point scale, CASU services received an average rating of 4.2.

Mail services and the photocopier program are the largest operations in the NY CASU. Figure 22 reflects the rates the NY CASU charged their customers to provide these services as opposed to the costs the customers would have had to pay if the CASU did not provide them. This graph reflects monetary savings only, arising primarily from the consolidation of personnel and space and economies of scale.

One of the NY CASU's accomplishments of FY 1993 was to develop a more equitable and reasonable method of allocating overhead administrative costs as well as improved methods for charging for certain services. Five CASU services were identified as cost centers to which overhead (93 percent of which was payroll related) was allocated based on proportional cost. The other six services are either contract only services or services which were newly formed at the end of the fiscal year. This new cost center structure will be reviewed annually for proper overhead allocation.

Concurrently with this fiscal restructuring, the NY CASU also developed a plan of targeting certain agencies for participation, or increased participation, in CASU programs. The Tenant Board has also been apprised of the need for the NY CASU to increase its customer base to improve cost savings to all CASU participating agencies.

PAYMENT MANAGEMENT SYSTEM

The mission of the Payment Management System (PMS) is to deliver Federal program funds to grant recipients and manage the funds held on account for those recipients. PMS also provides these services to agencies other than HHS. Non-HHS agency revenues were 17 and 16 percent in FY 1993 and 1992, respectively. PMS' goal is to provide the most efficient and cost effective way to manage and distribute Federal funds to recipients.

The amount of Federal program funds that have been advanced to grant recipients has increased from $52.2 billion in FY 1987 to $147.4 billion in FY 1993, an increase of 282 percent. This amount increased by more than 10 percent during FY 1993 and is expected to exceed $160 billion in FY 1994.

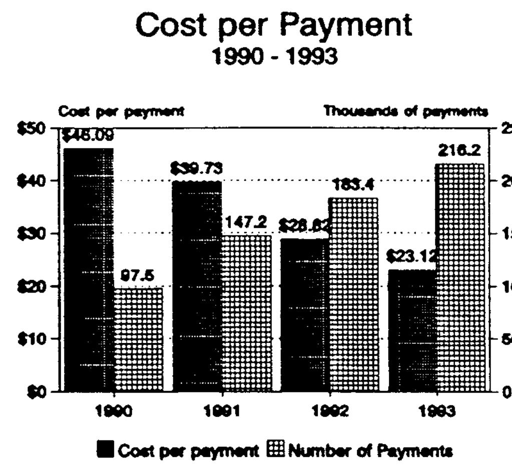


Figure 23

Figure 23 illustrates how PMS' cost per payment has decreased 50 percent in the last four years. The number of payments has increased 122 percent in this same period. One of PMS' objectives is to disburse program funds by using rapid and efficient payment technologies such as electronic funds transfer (EFT) and automated bank clearinghouse methods. These payment methods enable funds to be available more quickly, usually the next day; consequently, recipients do not have to maintain excessive cash balances. The number of payment requests is expected to increase in the coming year as recipients start to draw funds on an "as needed" basis. The percent of automated grantee payments increased from 89 to 95 percent in FY 93 (see Figure 15 on WCF-SUPP-6). The number of EFT recipients has increased 29 percent from FY 1992 so that 80 percent of all FY 1993 recipients received EFT payments. See Figure 16 on WCF-SUPP-6 for cost per recipient information.

The following are some of the initiatives undertaken to improve efficiency and increase customer satisfaction. All government agencies now transmit to and receive from PMS information in an electronic mode. Initiatives were started to establish both bulletin board and electronic mail with the OPDIVs and the recipients. Inquiry capability was implemented for state organizations to query PMS to determine grant award authority and cash balances. Payment warehousing was implemented to provide the capability for recipients to request payments on a future date, which significantly reduces the potential for late payments. This enhancement should significantly improve PMS's capability to support the requirements of the Cash Management Improvement Act of 1990 (CMIA-90).

The intent of CMIA-90 was to create equitable cash disbursement procedures between Federal and state governments. It allows the cross-assessment of interest income and expense between Federal and state governments. This should reduce early cash draws with the result that, by taking the cash recipient out of an excess cash position, interest assessments and, therefore, collections should be reduced. PMS successfully implemented CMIA-90 in July 1993, and in fact, many of the automation enhancements mentioned above facilitated implementation of the CMIA-90. Figure 24 shows that, while interest collections still increased in FY 1993, the rate of the increase slowed to six percent in FY 1993 as opposed to ten percent in FY 1992. As EFT fund delivery has reduced

Interest Collections
1987-1993

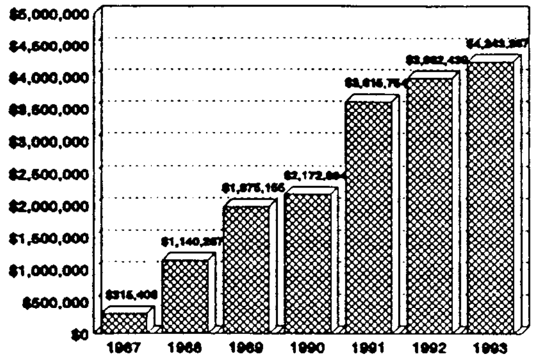


Figure 24

cash balances in the hands of recipients, it is expected that interest collections will be smaller both in dollars and percent of increase in future years.

PMS also provided extensive support to their customer agencies to facilitate the final phase-in period for M-Accounts. Implementing the M-Account legislation was an arduous labor intensive task. The major difficulty was reconciling grant award balances among PMS and the OPDIVs. PMS had to go to extremely long lengths to insure that OPDIVs did not lose the utility of prior year funds. In almost every case, PMS's data was accurate and was the amount used to close out the expired awards were closed at.

ADP processing costs are the largest expense of PMS after payroll related costs. ADP costs for the last seven years are shown in Figure 17 on WCF-SUPP-6. FY 1993's ADP costs are significantly lower than FY 1992's as a result of rebates given by the ADP processing and storage vendor. Without the effect of these rebates, ADP costs would have been slightly higher (as anticipated last year). ADP costs had been expected to increase with the implementation of CMIA-90 and significant effort was also necessary to support the M-Account legislation.

A small pilot project for the automated version of quarterly grant recipient cash status forms is expected to be implemented during FY 1994. This project, when completed, is expected to reduce labor intensive paper processing and increase the level of service to grant recipients. There has been no further progress on the electronic imaging project mentioned in last year's report.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The Federal Managers' Financial Integrity Act (FMFIA) was passed in 1982 to strengthen management controls over Federal Government resources. As required by the Act, the Department reports annually on FMFIA compliance to the President and Congress.

In FY 1993, the segmentation plan for the Office of Finance included a total of 16 management control areas (MCAs). The plan was updated to include one additional MCA for M-Accounts to reflect the requirement to close M-Year accounts by September 30, 1993. The plan also reflected the transfer of PMS to the Public Health Service under the Office of the Assistant Secretary for Management and Budget (ASMB) reorganization effective October 1, 1993. In ASMB, the segmentation plan for the Office of Information Resources Management (OIRM) was also revised in part to reflect the transfer of Reprographics to OIRM under the ASMB reorganization.

In Finance, two risk assessments were scheduled and completed in FY 1993 for Third Party Drafts and Procurement Credit Cards. Each received a "low" risk rating. The risk assessments meet FMFIA requirements.

Finance completed a total of five management control reviews in FY 1993 which included the following: Central Registry System, Travel Management System, and M-Accounts plus two regional DCA management reviews which were conducted jointly by DCA and the Office of Grants & Acquisition Management's Division of Cost Policy and Oversight. A review of Reprographics was conducted by OIRM. The FY 1993 reviews reflected no material weaknesses.

Under Section 4 of the FMFIA, Finance completed limited reviews of both the headquarters and regional accounting systems. These reviews identified no material nonconformances with these systems.

In the regions, no material weaknesses were identified related to the operation of the Regional Administrative Support Centers and the regional DCA offices. Regional Management Control Plans reflected the inclusion of the New York and Kansas City CASUs.

As functional manager for time and attendance, the Office of the Assistant Secretary for Personnel Administration (ASPER) coordinated corrective action in this area throughout the Department, and as a result, declared a previously reported material weakness corrected in FY 1993. No additional material weaknesses or material nonconformances related to ASPER WCF activities were reported by ASPER in FY 1993.

The results of the annual Section 4 review indicated that PMS had no major internal control weaknesses. PMS also conducted a Section 2 review of cash payment activities which also did not identify any major material internal control weaknesses. However, both reports did identify areas for improvement that PMS will pursue during FY 1994. The areas of improvement that require a major system effort will be included in the re-design of the existing system.

PRINCIPAL STATEMENTS AND RELATED NOTES

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF THE SECRETARY
WORKING CAPITAL FUND
STATEMENT OF FINANCIAL POSITION
as of September 30, 1993 and 1992
(Dollars in Thousands)

	1993	1992
ASSETS		
Intragovernmental Assets:		
Fund Balance with U.S.Treasury (Note 1)	$ 37,143	$ 29,399
Accounts Receivable, Net (Note 2)	10,677	7,272
Advances and Prepayments (Note 2)	19	6
Governmental Assets:		
Accounts Receivable, Net (Note 2)	11	7
Advances and Prepayments	40	21
Property and Equipment, Net (Notes 3 and 4)	4,858	3,949
TOTAL ASSETS	$ 52,748	$ 40,654
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable	$ 1,788	$ 2,205
Governmental Liabilities:		
Accounts Payable	6,136	2,597
Accrued Payroll and Benefits (Note 5)	2,338	2,807
Funded Annual Leave (Note 5)	4,631	4,076
Lease Liabilities (Note 4)	85	313
TOTAL LIABILITIES	14,978	11,998
NET POSITION		
Revolving Fund Balances (Note 6):		
Invested Capital	3,235	3,235
Cumulative Results of Operations	34,535	25,421
TOTAL NET POSITION	37,770	28,656
TOTAL LIABILITIES AND NET POSITION	$ 52,748	$ 40,654

The accompanying notes are an integral part of these statements.

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF THE SECRETARY
WORKING CAPITAL FUND
STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
for the years ended September 30, 1993 and 1992
(Dollars in Thousands)

	1993	1992
REVENUES AND FINANCING SOURCES		
Intragovernmental Revenue:		
DHHS Agencies	$ 105,665	$ 96,365
Outside Agencies	1,760	1,258
Total Revenues and Financing Sources	107,425	97,623
EXPENSES		
Program/Operating Expenses (Note 7)	97,102	91,469
Depreciation and Amortization	1,827	2,041
Total Expenses	98,929	93,510
Excess of Revenues and Financing Sources Over Total Expenses	$ 8,496	$ 4,113
Net Position, Beginning Balance, as Previously Stated	28,656	23,197
Prior Period Adjustment (Note 9)	618	1,346
Net Position, Beginning Balance, as Restated	29,274	24,543
Excess of Revenues and Financing Sources Over Total Expenses	8,496	4,113
Net Position, Ending Balance	$ 37,770	$ 28,656

The accompanying notes are an integral part of these statements.

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF THE SECRETARY
WORKING CAPITAL FUND
STATEMENT OF CASH FLOWS
for the years ended September 30, 1993 and 1992
(Dollars in Thousands)

	1993	1992
CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash Provided		
Sales of Goods and Services	$ 104,050	$ 101,494
Total Cash Provided	104,050	101,494
Cash Used		
Personnel Services and Benefits	62,178	59,414
Travel and Transportation	873	762
Rent, Communications and Utilities	12,840	12,272
Printing	1,687	1,256
Other Contractual Services	14,037	17,067
Supplies and Materials	1,117	910
Other Operating Cash Used	1,249	1,011
Total Cash Used	93,981	92,692
Net Cash Provided (Used) by Operating Activities	$ 10,069	$ 8,802
CASH PROVIDED (USED) BY INVESTING ACTIVITIES		
Purchase of Property, Plant and Equipment	$ (2,097)	$ (1,952)
Assets Acquired Under Capital Lease	0	(71)
Net Cash Used by Investing Activities	$ (2,097)	$ (2,023)
CASH PROVIDED (USED) BY FINANCING ACTIVITIES		
Cash used for Capital Leases	$ (228)	$ (154)
Net Cash Used by Financing Activities	(228)	(154)
Net Cash Provided by Operating, Non-Operating and Financing Activities	7,744	6,625
Fund Balances with Treasury, Beginning	29,399	22,774
Fund Balances with Treasury, Ending	$ 37,143	$ 29,399

The accompanying notes are an integral part of these statements.

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF THE SECRETARY
WORKING CAPITAL FUND
STATEMENT OF CASH FLOWS (CONTINUED)
for the years ended September 30, 1993 and 1992
(Dollars in Thousands)

	1993	1992
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenues and Financing Sources Over Total Expenses	$ 8,496	$ 4,113
Adjustments to reconcile excess of revenues and financing sources over total expenses to net cash provided by operating activities		
Decrease (Increase) in Accounts Receivable	(3,409)	4,155
Decrease (Increase) in Other Assets	(32)	0
Increase (Decrease) in Accounts Payable	3,121	(1,680)
Increase (Decrease) in Other Liabilities	86	(1,541)
Depreciation and Amortization	1,827	2,041
Write-off of Property and related Accumulated Depreciation	(638)	368
Prior Period Adjustments	618	1,346
Net Cash Provided (Used) by Operating Activities	$ 10,069	$ 8,802

The accompanying notes are an integral part of these statements.

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF THE SECRETARY
WORKING CAPITAL FUND
STATEMENT OF BUDGET AND ACTUAL EXPENSES
for the year ended September 30, 1993
(Dollars in Thousands)

BUDGET			ACTUAL
	Obligations		
Resources	Direct	Reimbursed	Expenses
$ 123,398	$ 0	$ 100,087	$ 98,929

Budget Reconciliation:

Total Expenses	$ 98,929
Add:	
Capital Acquisitions	2,097
Less:	
Depreciation	(1,827)
Accrued Expenditures	99,199
Less:	
Reimbursements	107,425
Accrued Expenditures, Direct	$ (8,226)

The accompanying notes are an integral part of these statements.

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF THE SECRETARY
WORKING CAPITAL FUND
STATEMENT OF BUDGET AND ACTUAL EXPENSES
for the year ended September 30, 1992
(Dollars in Thousands)

BUDGET			ACTUAL
	Obligations		
Resources	Direct	Reimbursed	Expenses
$ 106,596	$ 0	$ 90,162	$ 93,510

Budget Reconciliation:

Total Expenses	$ 93,510
Add:	
Capital Acquisitions	2,023
Less:	
Depreciation	(2,041)
Accrued Expenditures	93,492
Less:	
Reimbursements	97,623
Accrued Expenditures, Direct	$ (4,131)

The accompanying notes are an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These financial statements have been prepared to report the financial position, results of operations, cash flows, and budget and actual expenses of the Working Capital Fund (WCF), as required by the Chief Financial Officers Act of 1990. They have been prepared from the books and records of the WCF in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 94-01, and the WCF's accounting policies which are summarized in this note. These statements are therefore different from the financial reports, also prepared by the WCF pursuant to OMB directives, that are used to monitor and control the WCF's use of budgetary resources.

B. Reporting Entity

The WCF is a component of the Office of the Secretary of the U.S. Department of Health and Human Services (HHS). The WCF provides consolidated financing and accounting services for business-type operations that provide centralized administrative services to operating components of HHS. The WCF also has cross-servicing agreements with other agencies of the U.S. Government for selected activities. The funding of the WCF is without fiscal year limitation, and its operations are fully funded by operating division customers and approved by the WCF Board of Governors (the Board).

C. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. All intrafund balances and transactions have been eliminated.

D. Revenues and Financing Sources

The WCF receives its fee-for-service revenues by charging its customers based upon service units applied to a predetermined rate. The rates are based on a full cost budget, and the charter of the WCF requires funding of annual leave and depreciation. Since the rate is set prior to the expenditure of funds and is based upon budgeted volumes and cost, there is an inherent risk to the WCF that the rate will be too low, resulting in a loss. Conversely, there is a risk to the WCF's customers that the rate will be too high, resulting in a profit. For fiscal years 1993 and 1992, revenue variances resulted primarily from quantity variances between budgeted and actual service units.

E. Funds with the U.S. Treasury

The WCF does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The Fund Balance with U.S. Treasury as reported is the balance in the WCF's books and records, which was $193,212 less than the amount reflected in the records of the U.S. Treasury. The difference is attributable to timing differences and cumulative unreconciled amounts from previous years.

F. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis, with a half-year convention, over the estimated useful lives of the assets. Expenditures for individual ADP equipment costing less than $300, and non-ADP equipment costing less than $5,000, are expensed as incurred.

A physical inventory of equipment was taken in the WCF regional offices on or about September 30, 1993, and in the headquarters activities, which resulted in adjustments to increase property and equipment (gross) by $2,457,635 and accumulated depreciation by $1,857,920.

G. Advances from Federal Agencies

The WCF is required by its charter to draw funds from its customers in advance. The cash advances are based upon the estimated cash required to provide services for a 45 day period. Advances were taken in amounts adequate to cover WCF disbursements.

H. Accrued Liabilities

Accrued liabilities represent the amount of monies or other resources that are likely to be paid by the WCF as the result of a transaction or event that has already occurred. All the liabilities of the WCF are funded, including annual leave.

Note 2. Accounts Receivable, Net

The WCF had net accounts receivable of $10,687,880 and $7,284,994 at September 30, 1993 and 1992, respectively.

For fiscal year 1993, the major components of the $10,676,529 Accounts Receivable-Federal are $4,179,027 balance due to the WCF for services provided during 1993 and $5,361,891 which represents the September 1993 advance not collected prior to fiscal year end. The Accounts Receivable-Other Federal of $19,278 represents amounts advanced to other agencies which will be collected in fiscal year 1994. The $11,351 Accounts Receivable-Non-Federal represents refunds receivable.

The details of accounts receivable are as follows:

Accounts Receivable, Net (in 000's):	1993	1992
Accounts Receivable - Non-Federal	$ 11	$ 7
Accounts Receivable - Federal	10,677	7,278
Total Accounts Receivable, Net	$10,688	$ 7,285

Note 3. Property and Equipment, Net

The classes of fixed assets for fiscal year 1993 are as follows (in 000's):

Classes	Depreciation Method	Service Life in Years	Acquisition Value	Accumulated Depreciation	Net Book Value
Equipment	SL	5 - 10	$ 15,876	$ 11,229	$ 4,647
Assets Under Capital Lease	SL	5 - 10	312	101	211
Total			$ 16,188	$ 11,330	$ 4,858

The classes of fixed assets for fiscal year 1992 were as follows (in 000's):

Classes	Depreciation Method	Service Life in Years	Acquisition Value	Accumulated Depreciation	Net Book Value
Equipment	SL	5 - 10	$ 11,321	$ 7,723	$ 3,598
Assets Under Capital Lease	SL	5 - 10	620	269	351
Total			$ 11,941	$ 7,992	$ 3,949

The WCF funds the replacement cost of equipment by including depreciation in its billing rates. As a matter of Board policy, the amount of WCF equity reserved for asset replacement costs consists of accumulated depreciation less the cost of assets acquired during the period. The asset replacement cost reserved for fiscal years 1993 and 1992 is presented below:

Asset Replacement Cost (in 000's):	1993	1992
Asset Replacement Cost, Beginning	$ 6,638	$ 6,666
Depreciation expense and adjustment	3,506	1,924
Less: Acquisitions for period	(4,555)	(1,952)
Asset Replacement Cost, Ending	$ 5,589	$ 6,638

Note 4. Leases

The WCF capital leases are for terms of 48 to 60 months, with a bargain purchase option at the end of the lease. The liability is being amortized over five years using an 8% imputed interest rate.

Capital Leases (in 000's):

Summary of Assets Under Capital Lease:

Reprographic equipment	$ 312
Accumulated amortization	101
Net	$ 211

Most of the lease-to-purchase options have been exercised. The final lease payments in the amount of $85,656 are due in fiscal year 1994.

Note 5. Accrued Compensation and Benefits

In accordance with the WCF charter, annual leave liability must be funded. Refer to Note 6.

Accrued Compensation and Benefits (in 000's):	1993	1992
Annual Leave liability	$ 4,631	$ 4,076
Wages and Benefits	2,338	2,807
Total Accrued Compensation and Benefits	$ 6,969	$ 6,883

Employee Benefit Plans

Most employees of the WCF are covered by the Civil Service Retirement System. The employees' retirement (7%) and Medicare (1.45%) contributions are matched by the WCF and are transferred to the Civil Service Retirement Fund, from which these employees will receive retirement benefits. The other employees are covered by the Federal Employees' Retirement System (FERS), a retirement program which is comprised of Social Security and a tax-deferred savings plan in which the WCF participates. The WCF contributes 7.65% for Social Security. Employees covered by FERS can contribute a maximum of 10% of their salaries with the WCF matching 50% of contributions.

Contributions of the WCF aggregated $62,371,583 and $58,352,961 for personnel compensation and benefits in fiscal year 1993 and 1992, respectively. Although the WCF contributes a portion for pension benefits and makes the necessary payroll withholdings, it is not responsible for contribution refunds, employee benefits or the system's assets. Therefore, it does not disclose the actuarial data with respect to the accumulated benefits or unfunded pension liability on the WCF's financial statements. Reporting of such amounts is the responsibility of the Office of Personnel Management.

Note 6. Net Position (in 000's)

	FY 1993	FY 1992
Capital Transfers In:		
Assets (NBV)	$ 6,109	$ 6,109
Annual Leave Liability	(2,874)	(2,874)
Total Capital Transfers In	3,235	3,235
Cumulative Results of Operations:		
Reserved for:		
Annual Leave Liability	4,631	4,076
Asset Replacement Cost	5,589	6,638
Customer Rebates	0	1,191
ASPER Furniture/ADP Systems	500	900
PMS Systems Development	3,800	3,800
Finance/Accounting ADP Equipment	700	200
ASPER Wang Equipment Replacement Plan	1,100	1,100
Other Liabilities-Net	0	637
Total Reserved Equity	16,320	18,542
Unreserved Equity	18,215	6,879
Total Cumulative Results of Operations	34,535	25,421
Net Position	$37,770	$28,656

The WCF charter requires that the WCF break even over time. In order to avoid building unacceptable fund balances, the Board voted on May 5, 1993 to rebate $1.2 million to customers in the form of a credit on the customers' 1993 bills. Rebates or reserves for further improvement initiatives must be approved in advance by the Board. The WCF management will recommend that the Board approve a rebate during fiscal year 1994.

Of the $18,215,000 unreserved equity, $11,847,838 represents obligations of budgetary resources.

Note 7. Expenses (in 000's)

The operating expenses by object classification are:

	FY 1993	FY 1992
Personnel Services and Benefits	$62,372	$58,353
Travel and Transportation	934	877
Rents, Communications and Utilities	12,950	11,874
Printing and Reproduction	1,814	1,257
Contractual Services	16,339	16,784
Supplies and Materials	1,228	1,115
Equipment not Capitalized	1,465	1,209
Total Operating Expenses	$97,102	$91,469

Note 8. Other Disclosures

In fiscal year 1993, the remaining allocable activities, the Regional Accounting System, the Division of Accounting Operations, the Central Registry System, the Departmental Contracts Information System, and the Federal Assistance Reporting System converted to a fee-for-service basis. All of the WCF activities are fee-for-service beginning in fiscal year 1993.

OS-Mail was added as a new activity, and ADP Review was added as a new fee-for-service component of Regional Cost Allocation.

In October 1993, the accounting and management functions of the Payment Management System (PMS) were transferred to the Public Health Service. However, PMS remains an activity of the WCF.

Note 9. Prior Period Adjustments

A net prior period adjustment of $618,065 resulted from an increase to net equipment based upon a physical inventory performed in the regional offices and the headquarters activities of the WCF.

Note 10. Subsequent Events

In October 1993, the WCF Board voted to transfer the functions of the Regional Finance activity to the operating divisions. The targeted date for this transfer is the end of fiscal year 1995. The Board also voted to transfer the function of the Departmental Contracts Information System to the Public Health Service at the end of fiscal year 1994. The two transferred activities will no longer be activities of the WCF.

SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

SUPPLEMENTAL INFORMATION

The statement of operations by activity type is presented for purposes of additional analysis and is not a required part of the basic financial statements.

DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF THE SECRETARY
WORKING CAPITAL FUND
CONSOLIDATED STATEMENT OF OPERATIONS
for the year ended 09/30/93

	FEE FOR SERVICE	OVERHEAD POOLS	TOTALS	INTRA-FUND ELIMINATIONS	WCF CONSOLIDATED	%
OPERATING INCOME:						
DHHS AGENCIES	$105,664,538	$0	$105,664,538		$105,664,538	98.4%
OUTSIDE AGENCIES	1,759,945	0	1,759,945		1,759,945	1.6%
INTRA-FUND TRANSFERRED REVENUE	3,726,284	16,886,479	20,612,762	(20,612,762)	0	0.0%
TOTAL OPERATING INCOME	111,150,767	16,886,479	128,037,246	(20,612,762)	107,424,484	99.9%
LESS - DIRECT OPERATING COST:						
COMPENSATION & BENEFITS	59,525,297	2,846,286	62,371,583		62,371,583	58.1%
TRAVEL AND TRANSPORTATION	834,457	100,001	934,459		934,459	0.9%
RENTS, ETC. (NON SLUC)	1,920,176	11,029,676	12,949,852		12,949,852	12.1%
PRINTING	1,798,182	16,075	1,814,257		1,814,257	1.7%
CONTRACT AND OTHER SERVICES	14,720,281	1,618,918	16,339,199		16,339,199	15.2%
SUPPLIES	1,158,800	68,968	1,227,768		1,227,768	1.1%
EQUIPMENT (NON CAP.)	1,340,275	125,078	1,465,353		1,465,353	1.4%
TOTAL DIRECT OPERATING EXP.	81,297,468	15,805,002	97,102,470	0	97,102,470	90.4%
LESS - INDIRECT OPERATING COST:						
"SLUC"	9,782,359	300,004	10,082,363	(10,082,363)	0	
OVERHEAD ("0350")	2,220,327	97,575	2,317,902	(2,317,902)	0	
DEPRECIATION EXPENSE	1,757,336	69,742	1,827,078		1,827,078	
ANNUAL LEAVE EXPENSE	351,038	(3,423)	347,614	(347,614)	0	
TOTAL INDIRECT OPER. EXP.	14,111,059	463,898	14,574,957	(12,747,879)	1,827,078	1.7%
LESS - TRANSFERED OPERATING COST:						
"WCF" MANAGEMENT	1,193,691	0	1,193,691	(1,193,691)	0	
Dir Fin Ops	213,223	0	213,223	(213,223)	0	
Dir Fin Sys	871,337	0	871,337	(871,337)	0	
D A O	0	594,350	594,350	(594,350)	0	
Reg Acct Sys	229,979	0	229,979	(229,979)	0	
RASC Director	1,860,351	0	1,860,351	(1,860,351)	0	
Reprographics	365,101	14,394	379,495	(379,495)	0	
Unique Supplies	19,204	0	19,204	(19,204)	0	
Payroll services	201,091	8,835	209,926	(209,926)	0	
S W Personnel Services	354,248	0	354,248	(354,248)	0	
Regional Admin. Services	916,448	0	916,448	(916,448)	0	
Regional Finance	469,291	0	469,291	(469,291)	0	
Regional Personnel Services	553,343	0	553,343	(553,343)	0	
Total Transferred Exp.	7,247,307	617,579	7,864,886	(7,864,886)	0	0.0%
TOTAL COST OF OPERATIONS	102,655,834	16,886,479	119,542,313	(20,612,765)	98,929,548	92.1%
NET OPERATING INCOME (LOSS):	$8,494,933	$0	$8,494,933	$3	$8,494,936	7.9%

DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF THE SECRETARY
WORKING CAPITAL FUND
CONSOLIDATED STATEMENT OF OPERATIONS
for the year ended 9/30/93

	FEE FOR SERVICE	ASPER	PMS	REGIONAL ACTIVITIES	HQTRS FINANCE	CASU 2 & 7	OTHER
OPERATING INCOME:							
DHHS AGENCIES	$105,664,538	$59,561,515	$7,167,532	$20,848,816	$8,854,325	$4,146,526	$5,085,824
OUTSIDE AGENCIES	1,759,945	253,903	1,456,352	0	0	0	49,690
INTRA-FUND TRANSFERRED REVENUE	3,726,284	1,117,517	0	1,385,739	824,329	0	398,698
TOTAL OPERATING INCOME	111,150,767	60,932,935	8,623,884	22,234,555	9,678,654	4,146,526	5,534,213
LESS - DIRECT OPERATING COST:							
COMPENSATION & BENEFITS	59,525,297	38,247,242	2,755,821	12,927,817	3,067,955	1,981,910	544,551
TRAVEL AND TRANSPORTATION	834,457	366,558	15,248	314,909	10,693	126,470	579
RENTS, ETC. (NON SLUC)	1,920,176	453,551	71,286	233,465	0	1,038,125	123,749
PRINTING	1,798,182	95,910	6,003	25,502	11,166	4,088	1,655,513
CONTRACT AND OTHER SERVICES	14,720,281	6,938,509	1,521,758	745,837	4,023,144	745,676	745,358
SUPPLIES	1,158,800	737,947	14,284	252,568	27,096	21,070	105,836
EQUIPMENT (NON CAP.)	1,340,275	832,196	69,798	166,719	193,452	57,862	20,249
TOTAL DIRECT OPERATING EXP.	81,297,468	47,671,912	4,454,198	14,666,816	7,333,506	3,975,201	3,195,835
LESS - INDIRECT OPERATING COST:							
"SLUC"	9,782,359	6,357,154	329,704	2,230,309	405,343	0	459,849
OVERHEAD ("0350")	2,220,327	1,541,501	0	527,966	128,287	0	22,572
DEPRECIATION EXPENSE	1,757,336	946,496	70,969	441,116	6,128	29,028	263,599
ANNUAL LEAVE EXPENSE	351,038	215,550	33,446	53,795	36,380	8,998	2,869
TOTAL INDIRECT OPER. EXP.	14,111,059	9,060,701	434,119	3,253,186	576,138	38,026	748,889
LESS - TRANSFERED OPERATING COST:							
"WCF" MANAGEMENT	1,193,691	694,595	85,250	239,633	108,925	0	65,289
Dir Fin Ops	213,223	0	(862)	0	214,085	0	0
Dir Fin Sys	871,337	0	0	0	871,337	0	0
D A O	0	0	0	0	0	0	0
Reg Acct Sys	229,979	150,654	0	79,325	0	0	0
RASC Director	1,860,351	0	0	1,860,351	0	0	0
Reprographics	365,101	236,989	27,182	1,056	18,139	0	81,735
Unique Supplies	19,204	18,734	0	80	346	0	44
Payroll services	201,091	139,575	0	47,805	11,667	0	2,044
S W Personnel Services	354,248	288,267	0	0	54,782	0	11,200
Regional Admin. Services	916,448	594,242	0	322,206	0	0	0
Regional Finance	469,291	307,421	0	161,869	0	0	0
Regional Personnel Services	553,343	362,482	0	190,861	0	0	0
Total Transferred Exp.	7,247,307	2,792,959	111,570	2,903,187	1,279,280	0	160,312
TOTAL COST OF OPERATIONS	102,655,834	59,525,572	4,999,887	20,823,188	9,188,924	4,013,227	4,105,035
NET OPERATING INCOME (LOSS):	$8,494,933	$1,407,363	$3,623,997	$1,411,367	$489,730	$133,299	$1,429,178

DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF THE SECRETARY
WORKING CAPITAL FUND
STATEMENT OF OPERATIONS BY ACTIVITY
for the year ended 09/30/93

	Overhead Pools	WCF MANAGEMENT	DIRECTOR FIN OPS	DIRECTOR FIN SYS	RASC	"0350"	A/L	RENT
OPERATING INCOME:								
DHHS AGENCIES	$0	$0	$0	$0	$0	$0	$0	$0
OUTSIDE AGENCIES	0	0	0	0	0	0	0	0
INTRA-FUND TRANSFERRED REVENUE	16,886,479	1,193,690	213,224	871,337	1,860,350	2,317,902	347,615	10,082,361
TOTAL OPERATING INCOME	16,886,479	1,193,690	213,224	871,337	1,860,350	2,317,902	347,615	10,082,361
LESS - DIRECT OPERATING COST:								
COMPENSATION & BENEFITS	2,846,286	255,886	119,090	701,451	1,274,804	476,457	18,599	0
TRAVEL AND TRANSPORTATION	100,001	7,523	4,282	15,541	38,905	33,750	0	0
RENTS, ETC. (NON SLUC)	11,029,676	0	0	0	37,937	1,399,383	0	9,592,357
PRINTING	16,075	0	0	0	16,075	0	0	0
CONTRACT AND OTHER SERVICES	1,618,918	289,920	5,689	24,050	71,927	408,312	329,016	490,004
SUPPLIES	68,968	1,558	1,249	26,362	64,395	0	0	(24,596)
EQUIPMENT (NON CAP.)	125,078	945	0	25,196	74,341	0	0	24,596
TOTAL DIRECT OPERATING EXP.	15,805,002	555,832	130,309	792,601	1,578,383	2,317,902	347,615	*10,082,361
LESS - INDIRECT OPERATING COST:								
"SLUC"	300,004	28,559	22,790	51,235	197,421	0	0	0
OVERHEAD ("0350")	97,575	10,097	4,973	29,144	53,361	0	0	0
DEPRECIATION EXPENSE	69,742	865	56,393	0	12,484	0	0	0
ANNUAL LEAVE EXPENSE	(3,423)	1,043	(13,529)	(4,807)	13,870	0	0	0
TOTAL INDIRECT OPER. EXP.	463,898	40,564	70,627	75,572	277,136	0	0	0
LESS - TRANSFERED OPERATING COST:								
"WCF" MANAGEMENT	0	N/A	0	0	0	0	0	0
Dir Fin Ops	0	0	0	0	0	0	0	0
Dir Fin Sys	0	0	0	0	0	0	0	0
D A O	594,350	594,350	0	0	0	0	0	0
Reg Acct Sys	0	0	0	0	0	0	0	0
RASC Director	0	0	0	0	0	0	0	0
Reprographics	14,394	2,030	11,838	526	0	0	0	0
Unique Supplies	0	0	0	0	0	0	0	0
Payroll services	8,835	914	450	2,639	4,832	0	0	0
S W Personnel Services	0	0	0	0	0	0	0	0
Regional Admin. Services	0	0	0	0	0	0	0	0
Regional Finance		0	0	0	0	0	0	0
Regional Personnel Services	0	0	0	0	0	0	0	0
Total Transferred Exp.	617,579	597,295	12,288	3,165	4,832	0	0	0
TOTAL COST OF OPERATIONS	16,886,479	1,193,690	213,224	871,337	1,860,350	2,317,902	347,615	10,082,361
NET OPERATING INCOME (LOSS):	$0	$0	$0	$0	($0)	$0	$0	$0

SUPPLEMENTAL PERFORMANCE MEASURES

Overall Service Quality Assessment By Supervisors and Managers
SW Washington Personnel Services

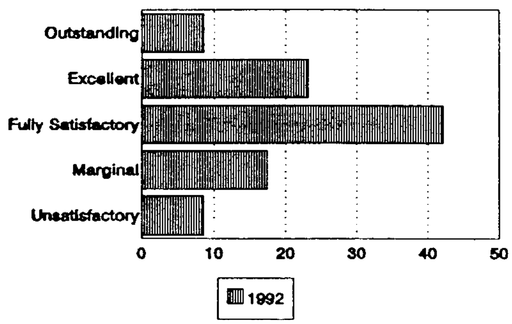


Figure 1

Personnel Accounts Processed per FTE
Personnel & Payroll Systems

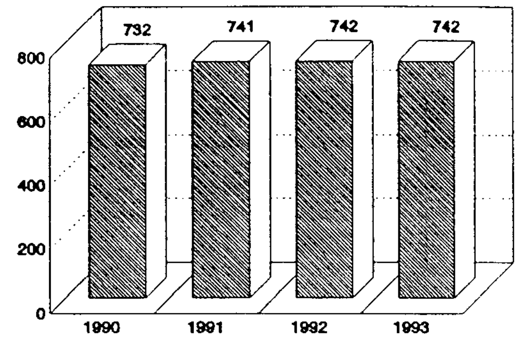


Figure 2

Investigations Processed per FTE
EEO Complaints Investigations

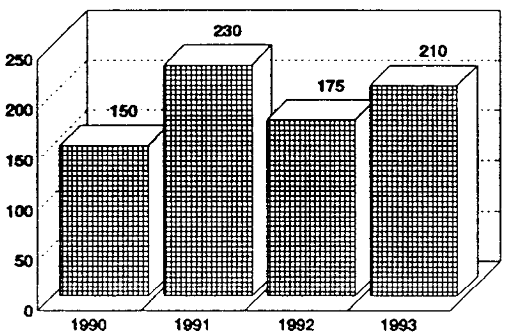


Figure 3

Negotiations Completed
DCA

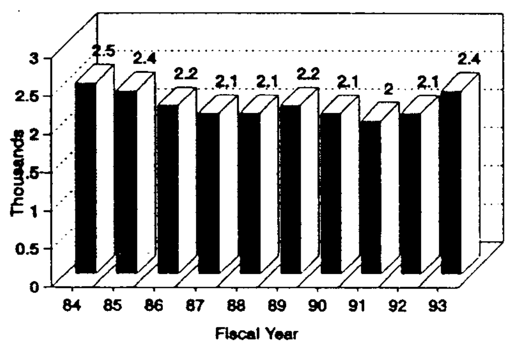


Figure 4

Cost Savings Per Negotiator
DCA

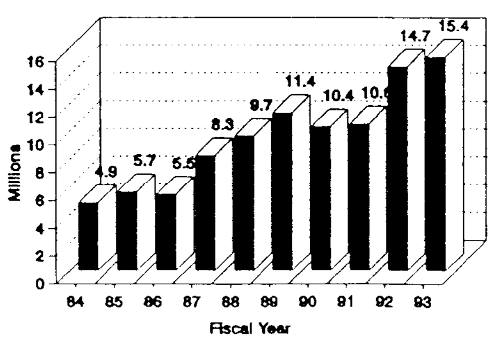


Figure 5

Negotiations Resulting in Cash Settlement
DCA

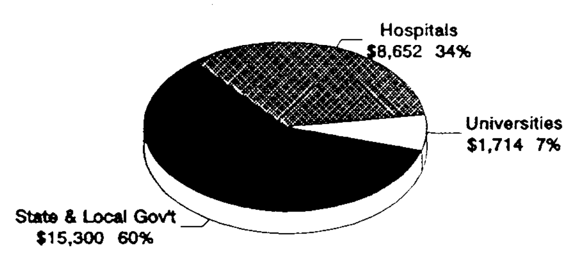
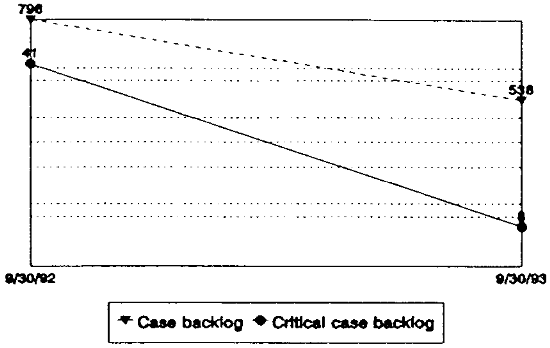


Figure 6

Reduction in Case Backlog
DCA



Critical cases are those over 12 months old

Figure 7

Volume of Resolutions & Resolutions per FTE
Audit Resolution

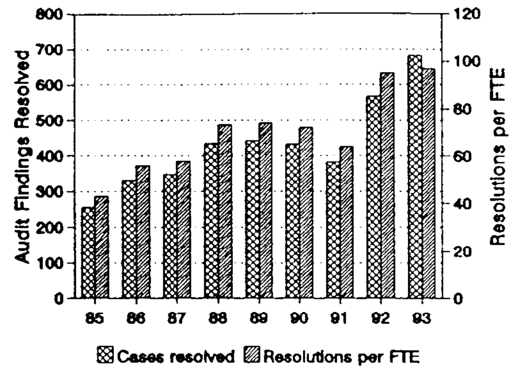


Figure 8

Operating Costs
Division of Audit Resolution

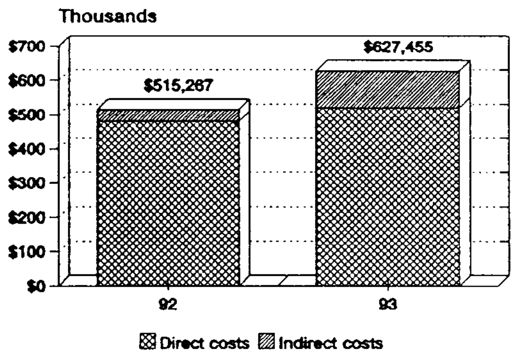


Figure 9

OS Mail Accuracy
Frequency of Misdirected Mail

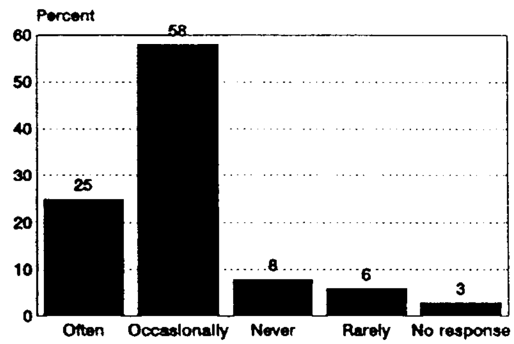


Figure 10

Customer Satisfaction - Timeliness
Unique Supplies

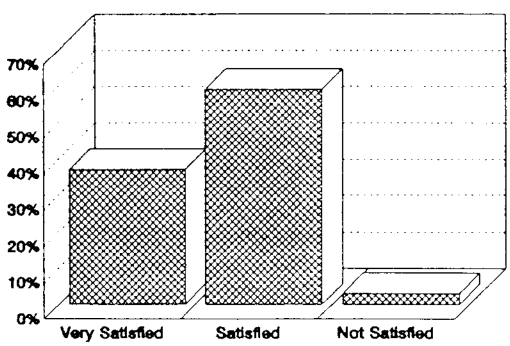
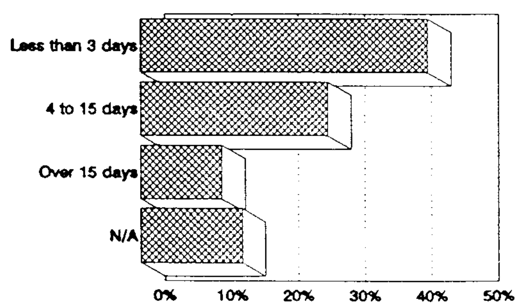


Figure 11

Days to Process Orders
Unique Supplies



per customer responses on satisfaction survey
N/A = direct delivery customers only

Figure 12

Customer Satisfaction - Inaccurate Orders
Unique Supplies

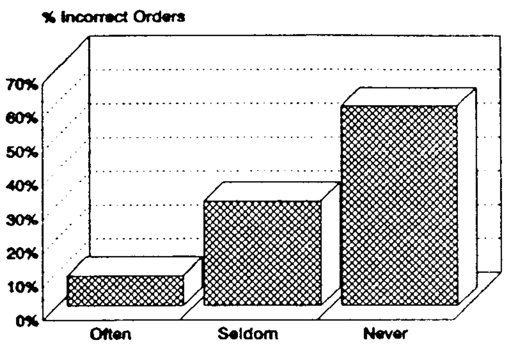


Figure 13

Customer Satisfaction - Cost
Unique Supplies

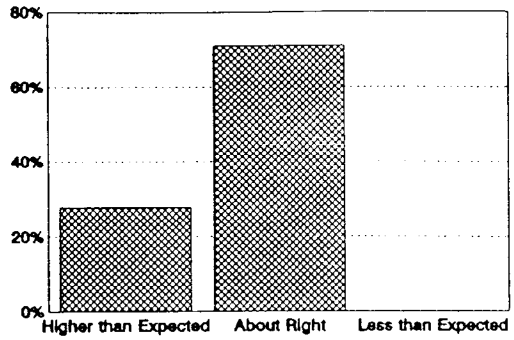


Figure 14

Number of Payments by Payment Type
Payment Management System

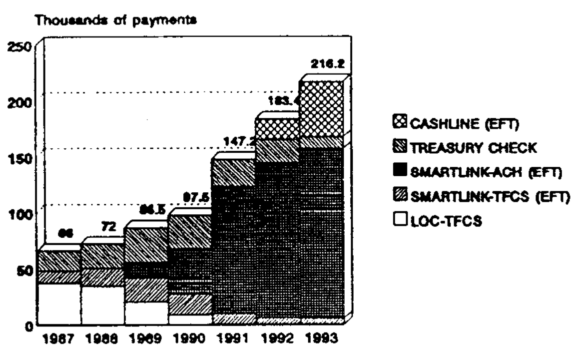


Figure 15

Cost per Recipient
Payment Management System

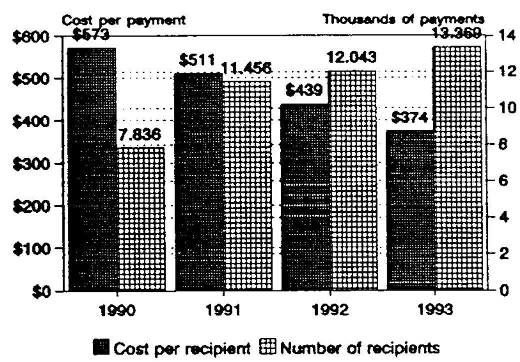
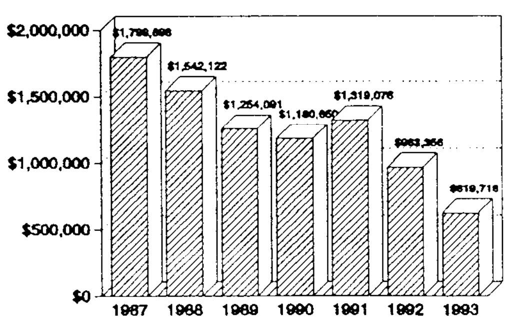


Figure 16

Net ADP Operating Cost
Payment Management System



1993 is net of rebate of approximately $400,000

Figure 17

OS WORKING CAPITAL FUND
FY 1993 Performance Measures

	% of WCF revenue
Regional Personnel	30.7
SW Washington Personnel	3.0
Cost per personnel account	
Customer satisfaction survey	
Servicing ratio (comparison with OPM standard)	
Personnel & Payroll Systems	20.1
Cost per personnel/payroll account	
Separation process timeliness	
ADP processing cost	
Personnel/payroll account processed per FTE	
EEO Complaints Investigations	1.9
Average customer cost per case	
Number of cases process per EEO FTE	
Number of cases	
Division of Accounting Operations	4.6
Regional Divisions of Finance	5.5
Regional Accounting System	2.6
Timeliness of payments	
Timely posting of OPAC transactions	
Timeliness of travel payments	
Timely reporting to central agencies	
% fully reconciled budget clearing accounts	
Cost per transaction	
Interest penalty - number and dollar amount	
% collections to current receivables	
% fully reconciled cash reconciliations	
% fully reconciled suspense accounts	
Division of Administrative Services	7.8
Customer satisfaction survey	

OS WORKING CAPITAL FUND
FY 1993 Performance Measures

Division of Cost Allocation	6.1
Negotiations completed Total cost savings Cost savings per negotiator Return on investment Negotiations resulting in cash settlement Customer satisfaction survey Reduction in case backlog	
Audit Resolution	0.5
% Cases that go to appeal Cost per case Volume of resolutions and resolutions per FTE	
OS Mail	0.3
Customer satisfaction survey	
Reprographics	4.3
Cost per copy On time rate	
Unique Supplies	0.2
Labor dollars per transaction Cost per dollar sales Customer satisfaction survey	
KC CASU	1.8
Customer satisfaction survey Net savings and avoidance by service	
NY CASU	2.0
Customer satisfaction survey Comparison of market vs. actual CASU costs for two largest activities	
Payment Management System	8.0
Cost per payment Number of payments by type Cost per recipient Amount of interest collected Cost of data processing	

OFFICE OF THE SECRETARY
WORKING CAPITAL FUND
FY 1993 ACTIVITY DESCRIPTIONS

ASSISTANT SECRETARY FOR PERSONNEL ADMINISTRATION (ASPER)

PERSONNEL AND PAYROLL SYSTEMS

The Personnel and Payroll Systems activity keeps current and historical personnel, pay and leave records on HHS civilian employees and members of the Commissioned Corps. Functions of the systems include: computation of biweekly pay, adjustments to salaries, maintenance of leave balances, creation of pay documents, and preparation of accounting data for HHS components and federal and state agencies.

REGIONAL PERSONNEL SERVICES

The ten Regional Personnel Offices provide personnel services to regional and field employees of HHS. These services include: staffing, position management and classification, training and career development, labor management relations, and performance management.

S.W. WASHINGTON PERSONNEL SERVICES

This activity provides personnel services to HHS components in the Southwest Washington, D.C. area. These services include: recruitment and placement, position management and classification, employee development and labor management relations, performance management, and employee counseling.

EEO COMPLAINT INVESTIGATION

This office investigates EEO complaints of discrimination arising throughout the Department.

ASSISTANT SECRETARY FOR MANAGEMENT AND BUDGET (ASMB)

PAYMENT MANAGEMENT SYSTEM (PMS)

The Payment Management System operates as a single payment system and fiscal intermediary between the recipient and the grant awarding HHS component. The PMS serves as most recipients' single point of contact in the Department for cash matters; provides both the recipient and the Department with one standard for continuous and timely reporting of expenditures; and facilitates effective cash management.

REPROGRAPHICS

The Reprographics activity provides printing, reproduction, and copy centers support to the various organizational components of HHS.

UNIQUE SUPPLIES

Unique Supplies is responsible for the purchase of supplies which are unique to HHS, such as Departmental letterhead, forms, envelopes, buttons, certificates, pins, flags, seals, etc. These supplies are then distributed to the various organizations of HHS.

AUDIT RESOLUTION

The Audit Resolution activity is responsible for resolving audit findings on grantee and contractor organizations which effect the programs of more than one HHS Operating Division or Federal agency. These "cross-cutting" audit findings generally result from organization-wide audits of grantees and contractors that administer programs financed by several HHS OPDIVs and other Federal agencies--e.g., state and local governments, universities, etc. Typically the findings involve deficiencies in overall accounting systems, internal controls or other management systems.

DIVISION OF ADMINISTRATIVE SERVICES

Provides administrative services for all activities co-located at Regional Headquarters location, including: telecommunications support (telephone and facsimile transmission), mail pickup and delivery, contract services, distribution of common supplies, maintenance of the official regional files, printing and reproduction services, moving and storage services, personal property management system, including property records, and operates and maintains the centralized regional data processing equipment.

This office also conducts a central regional procurement service. This includes scheduling and planning the procurement of services and personal property; issuing contract solicitations and negotiating and awarding contracts; conducting business dealings with contractors and monitoring contract performance through OPDIV/STAFFDIV program and technical personnel; enforcing HHS contractual rights, and closing out completed or terminated contracts.

DIVISION OF COST ALLOCATION

In accordance with established policies and procedures, conducts cost allocation activities. Negotiates and approves indirect cost rates, State and local Government cost allocation plans, research patient care rates and amounts, fringe benefits, computer and other special rates applicable to Federal awards. Provides financial management technical assistance on cost allocation to grantees and contractors, HHS grant and contract officials and grant and contract officials of other Federal agencies.

DIVISION OF FINANCE

The ASMB regional Division of Finance provides regional accounting, fiscal services, and financial reporting for all HHS activities for which the Regional Director (RD) is delegated the authority to provide such services. This office is responsible for the recording and reporting of all financial transactions of the RD and OPDIV/STAFFDIV operations through the maintenance of a standardized Regional Accounting System and provides coordination and liaison with the Treasury Department, the GSA, and the GAO on financial management matters.

COOPERATIVE ADMINISTRATIVE SUPPORT UNITS - REGIONS 2 AND 7

The Cooperative Administrative Support Units' (CASU) arrangement was established under a Governmentwide initiative of the President's Council on Management Improvement. The purpose of a CASU is to reduce costs and eliminate waste by having the designated lead agency for a Federally occupied building provide common administrative services on a reimbursable basis to all other Federal tenants of that building. HHS is the lead agency for the CASUs in the Kansas City and New York regional offices.

DIVISION OF ACCOUNTING OPERATIONS

The Division of Accounting Operations provides a complete range of accounting, financial, reporting, and fiscal services for the Office of the Secretary, the Administration for Children and families, and the Administration on Aging.

REGIONAL ACCOUNTING SYSTEM (RAS)

The Regional Accounting System (RAS) is the central automated accounting system supporting regional financial management. The System has been designed to provide timely and accurate financial reports and data to the regional offices, the Operating Divisions (OPDIVs), the Staff Divisions (STAFFDIVs), and the Office of the Secretary headquarters activities. The RAS consolidates the automated accounting systems support provided by the regional offices.

CENTRAL REGISTRY SYSTEM (CRS)

The Central Registry System (CRS) of the Department provides a means for identification of those individuals and organizations receiving grants and assistance in connection with the Federal Domestic Assistance Programs, and those receiving contracts that are reported in the Department-wide Contracts Information System. The CRS is an on line computer system that receives input transactions for initial registration and changes from all OPDIVs/STAFFDIVs, the Regional Headquarters, and the contract and program officers throughout the Department.

DEPARTMENTAL CONTRACTS INFORMATION SYSTEM (DCIS)

This activity compiles grant and contract information from the operating and staff divisions to produce geographically based reports to the Office of Management of Budget (OMB) and the Congress. DCIS also provides data for Freedom of Information requests, and inquiries from OMB, Congress, State Government, and Departmental management.

FEDERAL ASSISTANCE REPORTING SYSTEM (FARS)

The Federal Assistance Reporting System (FARS) gathers financial data from the OPDIVs and STAFFDIVs to report geographically and to compile program data. The data is the basis for the quarterly "Financial Assistance Reports". FARS also provides data for Freedom of Information requests, Congressional, Office of Management and Budget, state governments, and HHS management inquiries.

MANAGER, WORKING CAPITAL FUND

The Fund Manager is responsible for the day-to-day operations of the Fund. He advises the Board of Governors on the fiscal implications of its policies, reviews budgetary and financial policies and procedures of the various Fund activities to determine compliance with HHS financial policies, and directs budget formulation and execution to ensure the fund is operating in accordance with plans and that each activity maintains a non-deficit financial position.