



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

EPA Can Improve Managing of Working Capital Fund Overhead Costs

Report No. 09-P-0129

March 30, 2009

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Abbreviations

CBSS	Customer and Business Support Staff
EPA	U.S. Environmental Protection Agency
FTE	Full-Time Equivalent
OCFO	Office of the Chief Financial Officer
OEI	Office of Environmental Information
OIG	Office of Inspector General
OTOP	Office of Technology Operations and Planning
WCF	Working Capital Fund



At a Glance

Catalyst for Improving the Environment

Why We Did This Audit

We performed this audit to determine what costs were included in the Working Capital Fund (WCF) overhead and the value added by the overhead costs, and to identify opportunities for WCF cost savings.

Background

The U.S. Environmental Protection Agency's (EPA's) WCF began in Fiscal Year 1997. The role of the WCF is to provide a centralized source of administrative and support services for EPA. The WCF strives to reduce the costs of services in the Agency through improved efficiencies gained by achieving economies of scale, greater consumer bargaining power, and reduction in overhead.

For further information, contact our Office of Congressional, Public affairs and Management at (202) 566-2391.

To view the full report, click on the following link:
www.epa.gov/oig/reports/2009/20090330-09-P-0129.pdf

EPA Can Improve Managing of Working Capital Fund Overhead Costs

What We Found

While we did not identify any significant cost savings for the WCF, we did identify two areas requiring management attention:

- The WCF staffing process is not fully documented. Office of Technology Operations and Planning (OTOP) management allocates the number of Full-Time Equivalents to WCF cost centers based on discussions during annual budget formulation. Documentation supporting staffing allocations was minimal, and we did not identify any policies documenting the process.
- We identified three issues relating to unreasonable allocation of WCF employee time. Two OTOP employees had travel costs assigned to the WCF but no related payroll costs. Salary costs for 4 managers were allocated entirely to the WCF even though 5 of the 53 employees they supervised did not charge time to the WCF. An OTOP employee went on a detail outside the WCF but the employee's time continued to be charged to the WCF.

What We Recommend

We recommend that the OTOP Director document the WCF staffing process and methodology. We also made recommendations to address the unreasonable allocations noted. In response to the draft report, EPA agreed with our recommendations and its proposed corrective actions should address our recommendations.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF
INSPECTOR GENERAL

March 30, 2009

MEMORANDUM

SUBJECT: EPA Can Improve Managing of Working Capital Fund Overhead Costs
Report No. 09-P-0129

FROM: Melissa M. Heist *Melissa M. Heist*
Assistant Inspector General for Audit

TO: Linda Travers
Acting Assistant Administrator, Office of Environmental Information

Myra Galbreath
Director, Office of Technology Operations and Planning

This is our audit of EPA's Working Capital Fund overhead costs conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The estimated cost of this report – calculated by multiplying the projects' staff days by the applicable daily full cost billing rates in effect at the time – is \$661,477.

Action Required

In accordance with EPA Manual 2750, we are closing this report on issuance in our tracking system. You should track progress of your corrective actions in the Management Audit Tracking System. We have no objections to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

If you or your staff has any questions regarding this report, please contact Paul Curtis at (202) 566-2523 or Curtis.Paul@epa.gov, or Robert L. Smith at (202) 566-2531 or Smith.RobertL@epa.gov.

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Purpose

The purpose of this audit was to examine the U.S. Environmental Protection Agency's (EPA's) Working Capital Fund (WCF) overhead costs. We sought to determine what costs were included in WCF overhead and the value added by the overhead costs, and to identify opportunities for WCF cost savings.

Background

EPA's Working Capital Fund was established in Fiscal Year 1997 under the authority of Section 403 of Public Law 103-356, the Government Management Reform Act of 1994. Permanent authority was in EPA's 1998 Appropriations Act. The WCF is a revolving fund authorized by law to finance a cycle of operations in which the costs for goods or services provided are charged to the users. The WCF operates like a commercial business within EPA where customers pay for services received, thus generating revenue. The WCF's role is to provide a centralized source of administrative and support services for EPA. The WCF strives to reduce the costs of services through improved efficiencies gained by achieving economies of scale, greater consumer bargaining power, and reduced overhead.

EPA's Chief Financial Officer is responsible for the financial health of the Fund and makes all final decisions. The WCF Board provides policy, planning, and operations oversight to the Fund and ensures WCF use is consistent with Agency mission priorities. The Board mediates any issues not resolved through the chain-of-command and raises the issues for resolution, as appropriate, to the Chief Financial Officer. WCF Activity Managers have overall management responsibility for providing and overseeing service to customers.

WCF services are provided through four activities: data processing and telecommunications, Integrated Financial Management System, postage, and e-relocation services. The Office of Environmental Information (OEI) is primarily responsible for data processing and telecommunications services, and OEI's Office of Technology Operations and Planning (OTOP) is a major provider of WCF services. The Office of the Chief Financial Officer (OCFO) is responsible for the Integrated Financial Management System and e-relocation services. The Office of Administration and Resources Management is responsible for postage services.

In Fiscal Year 2007, WCF revenues totaled about \$196 million. Overhead costs totaled about \$21 million. During our audit field work, we identified 139 EPA employees who had a portion of their time allocated to the WCF.

Noteworthy Achievements

In August 2008, WCF staff and OTOP hosted the fourth annual WCF Conference in Research Triangle Park, North Carolina. The 3-day event offered information on a variety of WCF topics, including an overview of the WCF's operation, WCF metrics, and current and future service offerings. In several sessions, data processing activity service managers outlined the ordering and cancellation processes for their services.

Scope and Methodology

We conducted this audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. To meet the audit objectives, we identified the number of OEI and OCFO Full-Time Equivalents (FTEs) included in WCF overhead cost centers, determined the value added by those centers, and examined the current WCF supervisory structure. We conducted our field work from February 2008 to January 2009, at EPA Headquarters in Washington, DC, and Research Triangle Park, North Carolina. For additional details on scope and methodology, see Appendix A.

Results of Audit

We did not identify any significant cost savings for the WCF. However, we have identified two areas that we believe require OTOP management's attention: (1) WCF's staffing process not being documented, and (2) unreasonable allocations of WCF employee time. Details follow.

WCF Staffing Process Not Documented

OTOP's WCF staffing process was not fully documented. OTOP management allocates the number of FTEs to WCF cost centers based on informal discussions between service managers and WCF management during its annual budget formulation process. We did not identify any policies that documented the staffing process. The Government Accountability Office's *Standards for Internal Controls in the Federal Government* state "... Internal controls and all transactions and other significant events are to be clearly documented." The staffing process is an important element in the WCF's control activities; without maintaining documentation explaining process, the effectiveness of this control activity is reduced.

WCF employees are not required to keep timesheets because WCF managers estimate that the costs of setting up an adequate timekeeping system outweigh the benefits of such a system. Given that WCF employees are not required to record their actual time worked, it is especially important that OTOP document its WCF staffing process, so that it can be consistently applied in future years.

Unreasonable Allocations of WCF Employee Time

Cost accounting principles require that costs be allocated on a reasonable and consistent basis. We identified three issues relating to unreasonable allocation of WCF employee time.

No Salary Costs Associated with WCF Travel. We identified two OTOP employees whose travel costs were assigned to the WCF but no related payroll costs were assigned

to the Fund for those employees. It is not reasonable for an OTOP employee to charge travel expenses to the WCF without a related payroll charge for the time spent in travel status. WCF management has not developed a mechanism to capture the time charges of employees who incur travel costs but do not work for the WCF. As a result, WCF salary costs may be borne by other appropriations and all costs are not reflected in the accounting reports.

Salary Allocations for National Computer Center Managers Should be Reduced.

The salary costs of 4 managers in OTOP's National Computer Center are allocated entirely to the WCF, but 5 out of 53 employees they supervise do not charge any time to the WCF appropriation. WCF management did not consider charging less than 100 percent of the managers' time to the WCF because the majority of the staff worked on the WCF. It is not reasonable that managers who spend part of their time supervising non-WCF employees charge 100 percent of their time to the Fund. A portion of the managers' time should be charged to the appropriate non-WCF areas.

Salary for a Detail Employee Should Not Be Allocated to WCF. One OTOP employee went on a 120-day detail to the Office of Enforcement and Compliance Assurance in October 2007, but the employee's time was allocated to the WCF until January 2008. It is not reasonable that the salary costs of an employee assigned to another office be allocated to the WCF. The Director of OTOP's Customer and Business Support Staff (CBSS) said the allocation of the detailed employee salary continued until January 2008 because the Office of Human Resources did not process the employee's form SF-52, Request for Personnel Action, timely. According to the CBSS Director, the Fixed Account Number has since been changed retroactive to the employee's detail start date. We did not verify this information.

Recommendations

We recommend that the Director, Office of Technology Operations and Planning:

1. Document the OTOP WCF staffing process and methodology by developing a policy that details the process.
2. Develop a method to properly assign salary costs to the WCF for non-WCF employees whose travel costs are charged to the Fund.
3. Reduce the percentage of time charged to the WCF to reflect the time spent supervising employees who charge their time to non-WCF appropriations.

Agency Response and OIG Evaluation

EPA agreed with all our audit recommendations and its proposed corrective actions should address our recommendations. The draft report contained four recommendations, but we deleted one recommendation (related to the salary for a detail employee being allocated to the WCF) based upon OTOP's response to the draft report.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	3	Document the OTOP WCF staffing process and methodology by developing a policy that details the process.	O	Director, Office of Technology Operations and Planning	08/15/09		
2	3	Develop a method to properly assign salary costs to the WCF for non-WCF employees whose travel costs are charged to the Fund.	C	Director, Office of Technology Operations and Planning	02/26/09		
3	3	Reduce the percentage of time charged to the WCF to reflect the time spent supervising employees who charge their time to non-WCF appropriations.	O	Director, Office of Technology Operations and Planning	08/15/09		

¹ O = recommendation is open with agreed-to corrective actions pending;
C = recommendation is closed with all agreed-to actions completed;
U = recommendation is undecided with resolution efforts in progress

Appendix A***Details on Scope and Methodology***

To meet our audit objectives, we identified the number of OEI and OCFO FTEs included in WCF overhead cost centers, determined the value added by the WCF overhead costs centers, and examined the current WCF supervisory structure. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We analyzed WCF policies and procedures and gained an understanding of WCF internal controls over performance measures, financial reports, and contractual agreements through discussions with OEI and OCFO staff. To determine what costs were included in WCF overhead, the value added by the overhead costs, and opportunities for cost savings, we performed the procedures below.

- We obtained a general understanding of the WCF's organizational structure, prepared organizational charts for activities, and briefly described related functions.
- We reviewed Fiscal Year 2008 and 2007 FTE budget allocation reports for OTOP and OCFO. In addition, we determined the basis for the FTE allocations in general.
- We determined the purpose and description of each overhead cost pool and identified all OEI and OCFO employees who charge time directly to a cost center, determined their functions, and reviewed for duplication of efforts between cost centers.
- We learned the nature of the contract costs that are included in the overhead cost centers and determined why the contractor support is necessary.
- We examined supporting documentation for Fiscal Year 2007 contract costs in cost centers G0 (Consolidated National Computer Center Divisional General and Administrative), G2 (National Technology Services Division Planning General and Administrative), H3 (National Computer Center Production Overhead), and GH (General and Administrative in Enterprise Desktop Solutions Division).
- We evaluated the current WCF supervisory structure to determine its appropriateness and reasonableness, and reviewed government-wide criteria on supervisor-to-employee ratio.
- We determined the roles and responsibilities of all WCF employees above a GS-13.
- We reviewed recent WCF financial reports and the 2007 overhead analysis prepared by a Certified Public Accountant.

Appendix B

Agency Response to Draft Report

February 26, 2009

MEMORANDUM

SUBJECT: Draft Audit Report Assignment No. 2007-000445, EPA Can Improve Managing of Working Capital Fund Overhead Costs

FROM: Myra J. Galbreath, Director
Office of Technology Operations and Planning
And Chief Technology Officer

TO: Paul C. Curtis, Director
Financial Statement Audits
Office of Inspector General

We have completed our review of Office of Inspector General (OIG) Draft Audit Report Assignment 2007-000445, *EPA Can Improve Managing of Working Capital Fund Overhead Costs* and provide the following comments as requested:

1. Recommendation #1: Document the OTOP WCF staffing process and methodology by developing a policy that details the process.

Concur in part -- Currently, the WCF Staffing process is documented in each year's budget development working files. During the FY 2010 budget development cycle, we will ensure that the process and methodology used in determining FTE percentages charged to the different WCF cost centers is clearly documented. In addition, we will include the relevant email discussions on the formulation process as part of the formal record.

Estimated date of completion: August 15, 2009

2. Recommendation #2: Develop a method to properly assign salary costs to the WCF for non-WCF employees whose travel costs are charged to the Fund.

Concur -- The two incidents identified in the audit were errors uncharacteristic of our funding operations and have been corrected. We have reemphasized that travel funding should be the same as the employee's fixed account number (FAN).

Estimated date of completion: Completed

3. Recommendation #3: Reduce the percentage of time charged to the WCF to reflect the time spent supervising employees who charge their time to non-WCF appropriations.

Concur -- We have reviewed the percentage of time charged to the WCF for NCC management and will adjust the Fixed Account Numbers (FAN) to reflect a mix of WCF and appropriated percentages beginning in the FY 2010 WCF budget formulation process.

Estimated completion date: August 15, 2009

4. Recommendation #4: Promptly adjust the Fixed Account Number for employees who are on detail, to ensure improper cost allocations do not occur and cost accounting reports remain accurate.

Non-concur -- We regularly review Fixed Account Numbers (FAN) and adjust them accordingly. The FAN number charged to an employee is driven by the HR process and specifically by the SF-52.

The individual on detail to another organization was to be charged to that organizations accounting and the correct FAN was placed on the SF-52. In this particular instance, the FAN was not updated in PeoplePlus to the receiving organization accounting as it should have been. We retroactively corrected the FAN to the employee's detail start date.

Estimated completion date: Completed

Thank you for the opportunity to comment on the draft report. If you have any questions concerning the information provided please contact Cindy Simbanin at 202-566-0304.

Appendix B***Distribution***

Office of the Administrator
Acting Chief Financial Officer
Acting Assistant Administrator for Administration and Resources Management
Acting Assistant Administrator for Environmental Information
Agency Follow-up Official (the CFO)
Acting Deputy Chief Financial Officer
Agency Follow-up Coordinator
Acting General Counsel
Acting Associate Administrator for Congressional and Intergovernmental Relations
Acting Associate Administrator for Public Affairs
Working Capital Fund Staff, Director
Director, Office of Technology Operations and Planning
Acting Director, Policy and Programs Developmental Staff
Acting Director, Office of Financial Management
Working Capital Fund Board Members
Acting Director, Office of Financial Management
Acting Director, Office of Financial Services
Director, Reporting and Analysis Staff
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