



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

Office of the
Inspector General

February 6, 2012

MEMORANDUM FOR NANCY H. KICHAK

Associate Director
Human Resources Solutions

FROM:

MICHAEL R. ESSER
Assistant Inspector General for Audits

A handwritten signature in black ink, appearing to read "Michael R. Esser".

SUBJECT:

Final Report on Human Resources Solutions 2009 Overlay
Rate (Report No. 1K-RS-00-12-023)

The purpose of this memorandum is to communicate to you the conclusions resulting from our review of the FY 2009 overlay rate for Human Resources Solutions (HRS), Leadership and Talent Management Services (LTMS), previously known as the Center for Talent Services.

Executive Summary

Our review indicated that the FY 2009 overlay rate for LTMS appeared reasonable. However, due to the scope limitations highlighted in this report, we plan to initiate a follow-up review of the FY 2011 overlay rate in early FY 2013.

Introduction

OPM's authority for the program is cited in Title 5 of the United States Code. The LTMS operates as a Federal business enterprise partnering with agencies to meet their missions. This is accomplished by providing effective human resource management that offers a variety of services and tools to support recruitment, assessment, and acquisition of employees for customer agencies. Specifically, LTMS provides:

- Human resource strategy and evaluation which provides strategic human resource solutions to help transform agencies into high performing organizations;
- Human resource tools and technology which provides leading-edge, innovative, high quality human resource information technology products and services;
- Leadership and human resource development which provides leadership, management, and Federal executive training; and,
- Vendor management which provides assisted acquisition services in the areas of human capital strategy, learning management systems, recruitment and branding, and employee training solutions.

Background

LTMS operates through the revolving fund. LTMS authority is found in statute 5 USC 1304(e)1 and the Economy Act, 31 USC. The revolving fund operates as a flexible tool allowing for gains and losses, with an operational concept to break even overall. LTMS has to operate within congressional limitations. LTMS charges other agencies a price for their services, which is comprised of direct costs, indirect costs, and previous period's profit or loss.

The overlay rate developed by OPM is used to recover indirect costs. The overlay rate is applied to salaries charged to the contract. The overlay is an accounting mechanism used to account for indirect costs. Indirect costs for LTMS are divided into two categories. The first is local office costs, which include training, paid leave, general administration, and non-project related operating expenses. The second is central office costs, which include common services, rent, capital investments, and other headquarters operating expenses. For FY 2009, LTMS used two different overlay rates. For work carried into FY 2009, an overlay rate of 174 percent was used. For interagency agreements starting in FY 2009, the overlay rate was 220 percent. For the FY ending September 30, 2009, revenue was approximately \$75 million.

Objectives, Scope, and Methodology

Our original objective was to determine whether:

- Agencies are properly billed and revenue is collected in a timely manner;
- Labor rates are properly calculated;
- Business-like budgets are prepared;
- Applicable laws and regulations are adhered to; and,
- Costs are recouped for services performed.

However, we limited our audit scope for the following reasons:

- Two other concurrent reviews were being completed which duplicated some of our planned areas for this review;
- HRS staff availability was limited because they were supporting the other two more high profile reviews; and,
- The documentation necessary to support a more detailed review was not available due to the October 2009 transition from the Government Financial Information System (GFIS) to the Consolidated Business Information System. Detailed GFIS records were not available, including invoices.

Thus, the objective of the review was limited to determining if the FY 2009 overlay rate (for the new interagency agreements) calculated by OPM was reasonable. To complete this objective, we tested the costs used to bridge the rate from the FY 2008 rate of 174 percent to the FY 2009 rate of 220 percent. We performed this procedure by testing selected costs by category, location, and verifying the direct labor base.

However, the documentation limitations mentioned previously prevented us from reviewing individual expenses to determine if the cost was accumulated in homogeneous cost groupings or

if all costs were allocated based on a beneficial or casual relationship to the final cost objective. Also, we did not review the FY 2008 overlay rate.

In planning and conducting our review, we obtained an understanding of HRS's internal control structure to help determine the nature, timing, and extent of our review procedures. For the area selected, we primarily relied on substantive tests of transactions and not tests of controls.

Our review was not conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) as established by the Comptroller General of the United States. The nature and scope of the work performed was consistent with that expected of a GAGAS audit. However, because we consider this a review, the planning, documentation, reporting, and quality control standards are not as stringent.

Review Result

Since supporting documentation was limited and actual invoices were not available, we completed the following steps to determine the reasonableness of the FY 2009 overlay rate for LTMS:

- Verified direct labor base using summary reports;
- Traced expenses (e.g., rent, supplies, indirect labor, fringe benefits, travel, etc.) to summary spreadsheets; and,
- Compared estimated FY 2009 expenses to actual.

Based on applying these procedures, we concluded that the FY 2009 overlay rate was reasonable.

However, since documentation was not available to thoroughly analyze the FY 2009 overlay rate, we plan to complete a follow-up review on the accuracy of the FY 2011 overlay rate in early FY 2013. While ensuring that the rate is fully documented and accurately calculated, we also plan to verify that LTMS is only allocating expenses based on a beneficial or casual relationship to the final cost objective, as required by Federal Acquisition Regulations.