



United States  
General Accounting Office  
Washington, D.C. 20548



Accounting and Information  
Management Division

B-277185

July 10, 1997

The Honorable Ben Nighthorse Campbell  
The Honorable Christopher J. Dodd  
The Honorable Barbara A. Mikulski  
United States Senate

The Honorable Dan Schaefer  
House of Representatives

Subject: Financial Management: Clarification of GAO Response to Allegations  
Regarding DFOH

In response to your requests and discussions with your offices, this letter provides information regarding your constituents' concerns that certain issues were not addressed in our September 1996 letter on allegations of fiscal mismanagement by the Division of Federal Occupational Health (DFOH).<sup>1</sup> DFOH is within the Health Resources and Services Administration (HRSA) of the Department of Health and Human Services (HHS). Our previous letter addressed a group of former and current DFOH employees' allegations that during fiscal years 1992 and 1993 (1) DFOH violated the Economy Act by including regional office rent allocations from HRSA in the costs reimbursed by other federal agencies under interagency agreements and (2) HRSA augmented (inappropriately increased) its appropriation by allocating these rent costs to DFOH.

Our September 1996 letter concluded that the rent allocations were an allowable cost under the Economy Act and, accordingly, that HRSA's appropriation was not augmented. However, we found that DFOH did not have an adequate cost accounting system to track the actual costs incurred under each interagency agreement, as required under the Economy Act. Thus, for fiscal years 1992 and 1993, DFOH could not offer any assurance that it had complied with the Economy Act on an individual interagency agreement basis. However, as stated in our previous letter, DFOH procured an off-the-shelf cost accounting system to automate its operations and track actual costs. Proper

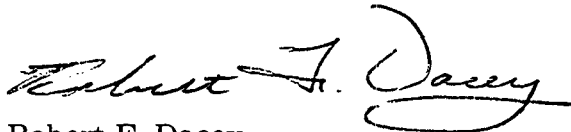
<sup>1</sup>DFOH Financial Management (GAO/AIMD-96-167R, September 30, 1996).

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implementation of an adequately designed cost accounting system should enable management to fully meet the Economy Act's requirements.

We reviewed the concerns itemized in your constituents' letters and did not identify any new information that would change the conclusions reached in our previous letter. However, we have clarified certain issues brought forth in those letters. The enclosure to this letter lists the constituents' concerns and our responses. As agreed with your offices, our responses are limited to financial matters that relate principally to the Economy Act and augmentation allegations at DFOH that were the subject of our previous letter. We did not perform any work related to personnel reprisal activities or federal acquisition regulations.

Please contact me at (202) 512-3317 if you or your staffs have any questions concerning this letter.

A handwritten signature in cursive script that reads "Robert F. Dacey". The signature is written in black ink and is positioned above the typed name.

Robert F. Dacey  
Director, Civil Audits/Health,  
Education, and Human Services

Enclosure

GAO'S RESPONSE TO ADDITIONAL CONCERNS RELATED TO  
DFOH ALLEGATIONS

Issue One

"An additional \$300,000 central charge to [D]FOH in 1992 for communication costs, allegedly for unpaid regional [D]FOH 'health unit' phone bills. The promised justification for such charges was claimed to have been inadvertently 'destroyed.'"

GAO Response

Based upon our review of actual amounts obligated, DFOH records include obligations of \$278,975 for fiscal year 1992 communication costs. We obtained HHS correspondence allocating central communication costs of \$619,590 to HRSA during this period; however, we could not trace DFOH's \$278,975 portion of this total to supporting detailed call records. DFOH officials indicated that the 1992 detailed call records were destroyed in accordance with data retention guidelines set forth by HHS. National Archives and Records Administration (NARA) guidance states that communication vouchers, invoices, and related records may be destroyed after 1 fiscal year. HHS states that it follows NARA guidelines. Accordingly, we were unable to conclude as to the appropriateness of this amount.

Issue Two

"A 1993 directive to disburse from central funds approximately one million dollars to cover regional rents that [D]FOH regions allegedly owed, despite the fact that each [D]FOH regional operation had already negotiated and paid its rent - and other administrative support costs - at the regional level. Such funds were never previously categorically disbursed by the central [D]FOH office."

GAO Response

According to DFOH officials and various agency memorandums, HRSA allocated overhead costs of approximately \$750,000 to DFOH in fiscal year 1993. These costs included a variety of managerial support functions and regional office rent. Prior to fiscal year 1993, HRSA had not allocated overhead to its operating divisions, which included DFOH.

In our review of agency documents, we found correspondence from various DFOH Regional Health Administrators indicating that DFOH had not previously paid overhead costs, including regional office rent. The correspondence also indicated the number of DFOH employees occupying space funded by HRSA.

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HRSA used this number as a basis for allocating overhead costs to DFOH, as stated in our original letter. Additionally, we did not find any duplication of the regional office rent included in overhead cost allocations in other DFOH financial reports.

Issue Three

"The institution of undefined 'taps' upon [D]FOH central funds in 1993 by its parent organization, with the absence of accounting information regarding the use of such 'taps'."

GAO Response

DFOH and HRSA officials provided GAO with support for certain overhead cost allocations. However, HRSA management indicated they were unable to locate all accounting support for fiscal year 1993 following the transfer of accounting records from HHS regional locations to HHS central headquarters in fiscal year 1995. Consequently, we are unable to respond to this issue.

Issue Four

"Despite several FOIA [Freedom of Information Act] requests, the inability or unwillingness of the Agency to provide complete 'standard' financial management reports for all regions for the fiscal years requested and for the disbursement of central funds by activity and object classes."

GAO Response

As agreed with your offices, we did not review issues pertaining to DFOH's compliance with FOIA requests.

Issue Five

"[D]FOH regional and central operations have paid their respective shares of rent and other administrative support costs for years, respectively, at the regional and central levels. Obviously such expenses are 'allowable' to charge to [D]FOH (no one has ever disputed this), but not twice."

GAO Response

This is the same as Issue Two above. As indicated, this overhead charge was not allocated to DFOH prior to fiscal year 1993. We reviewed documents which supported HRSA's notification of the management allocation and traced the overhead allocation to DFOH's books and records. We did not find any

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duplication of the regional office rent included in overhead cost allocations in other DFOH financial reports.

Issue Six

"Moreover, there are various methods (e.g., per capita) that can be legitimately used to equitably distribute such costs. It is possible that a specific [D]FOH region was not paying what—at first glance—might have appeared to be its fair share of rent; on the other hand, it may have been overpaying for some other category of administrative support service (e.g., communications) in lieu thereof."

GAO Response

Under the Economy Act, payments for goods and services provided under interagency agreements are based on the actual cost of the goods and services. Actual cost includes all costs attributable to providing services and is comprised of both direct and indirect costs, including the allocation of overhead costs. GAO decisions interpreting the Economy Act state that these costs must have a significant relationship to the services provided under the interagency agreement (57 Comp. Gen. 674, 682-683 (1978)). The method used to allocate overhead costs is determined by management given the type of costs allocated, the detailed accounting records, and the expense of implementing the allocation methodology. We found the methods used to allocate overhead costs in fiscal years 1993 and 1994 to be reasonable.

Issue Seven

There were several references to a management survey performed by Donald Hirsch and Henry G. Kirschenmann, Jr. with respect to Anti-Deficiency Act and Federal Acquisition Regulations violations.

GAO Response

In preparing our previous letter, we considered this management survey, along with other agency reports, in assessing possible violations of the Anti-Deficiency Act and Economy Act. We did not perform any work related to violations of Federal Acquisition Regulations, as previously agreed with your offices.

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