
REPORT BY THE

Comptroller General

OF THE UNITED STATES

OPM's Revolving Fund Policy Should Be Clarified And Management Controls Strengthened

The Office of Personnel Management operates a revolving fund through which it finances background investigations, training, and other reimbursable programs. OPM's policy states, as a general rule, that its authority to spend money on reimbursable work will be limited to the amount of income generated. But OPM officials have different interpretations of the period of time over which each revolving fund activity should recover its costs.

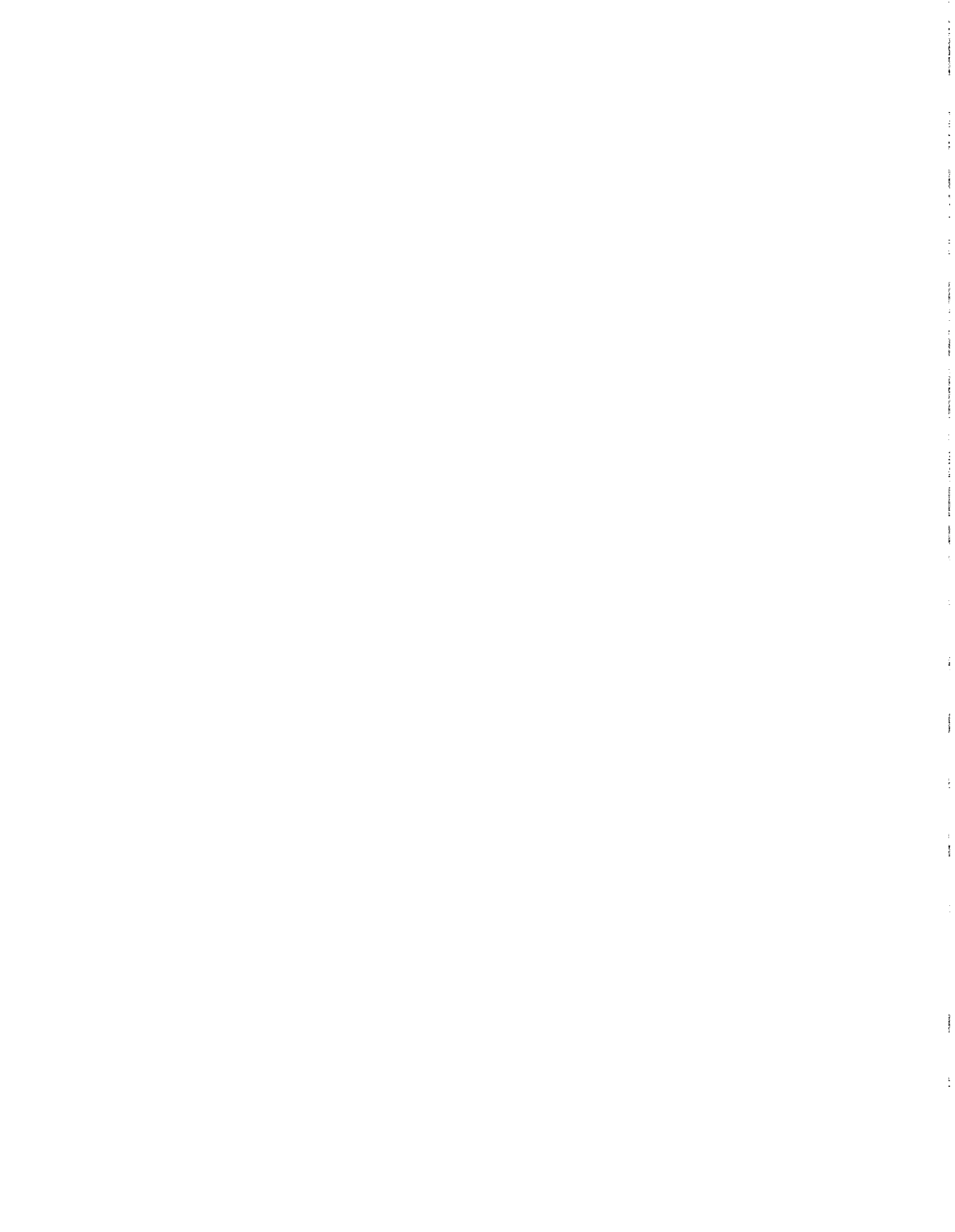
Individual revolving fund activities accumulated surpluses and deficits over several years. During fiscal year 1981, OPM was faced with the possibility of ceasing its revolving fund activities because it did not have enough funds to pay the costs of its operations. GAO believes that defining the statutory concept of operating each revolving fund activity on an "actual cost basis over a reasonable period of time" may help prevent this situation from occurring again. Further, although OPM has improved its management controls, additional improvements would be helpful.

OPM generally agreed with GAO's recommendations to improve its revolving fund management.



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GAO/GGD-84-23
OCTOBER 13, 1983





COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON D.C. 20548

B-206231

The Honorable William V. Roth, Jr.
Chairman, Committee on Governmental
Affairs
United States Senate

The Honorable William D. Ford
Chairman, Committee on Post Office
and Civil Service
House of Representatives

This is our fourth report in response to the requirement of Public Law 91-189 that the Comptroller General periodically report to your committees on activities financed by the Office of Personnel Management's revolving fund. This report addresses planning, budgeting, and other financial management aspects of the fund and makes recommendations to clarify the Office's revolving fund policy and strengthen management controls.

We also are sending copies of the report to selected committees of the Congress, the Director, Office of Personnel Management, and the Director, Office of Management and Budget.

A handwritten signature in cursive script that reads "Charles A. Bourke".

Comptroller General
of the United States



COMPTROLLER GENERAL'S
REPORT

OPM'S REVOLVING FUND POLICY
SHOULD BE CLARIFIED AND
MANAGEMENT CONTROLS
STRENGTHENED

D I G E S T

The Office of Personnel Management's (OPM's) revolving fund was established in 1952 to enable its predecessor, the Civil Service Commission, to finance full background personnel investigations for other Federal agencies and to recover from those agencies the costs of conducting investigations. At the request of the Commission, Public Law 91-189 (5 U.S.C. 1304 (e)) was enacted in 1969. This law expanded the revolving fund to include training and other reimbursable functions the Commission was authorized or required to conduct, so that development costs, profits, and losses could be carried over from year to year. The law requires that "To the maximum extent feasible, each individual activity shall be conducted generally on an actual cost basis over a reasonable period of time."

During fiscal year 1982, OPM financed several reimbursable activities through the revolving fund. These included executive and nonexecutive training, full background personnel investigations, an intergovernmental personnel program, testing of potential Department of Defense military recruits, the President's Commission on Executive Exchange, and a health center for Federal agencies in St. Louis, Missouri. The two major activities of the fund, personnel investigations and training, had revenues of \$28.2 million and \$37.3 million, respectively for fiscal year 1982. Expenses for the same period were \$24.3 million and \$38.2 million, for a profit of \$3.9 million for the investigations activity and a loss of \$.9 million for the training activity.

GAO/GGD-84-23
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FUND POLICY NEEDS
TO BE CLARIFIED

Individual revolving fund activities accumulated surpluses and deficits over several years. The training activity accumulated a surplus that largely offset deficits incurred by the investigations activity. The investigations activity accumulated a deficit of \$6.8 million during fiscal years 1979 through 1981. During the same period, the training activity accumulated a surplus of \$6.4 million. (See pp. 4 and 5.)

OPM did not make substantial progress in resolving financial problems in its investigations activity until the beginning of fiscal year 1982, when its officials were faced with the possibility of ceasing operations to avoid an Antideficiency Act violation. Generally, a violation occurs when an agency obligates more funds than it has available to spend, thereby creating a deficit. At that time, the Director, OPM, authorized furloughs and a reduction in force of 200 people in the investigations activity to help reduce the deficit. Because enough employees were detailed from or voluntarily left the investigations activity, these actions did not have to be implemented. (See pp. 6 and 7.)

Although these actions were expected to reduce the accumulated deficit during fiscal year 1982 and bring the investigations activity closer to breaking even, they did not provide for eliminating the accumulated deficit. Also, at the time these actions were authorized, activity officials did not develop plans to eliminate the accumulated training surplus. In May 1982, the revolving fund manager issued budget guidance advising activity officials to develop plans to eliminate the accumulated deficit in the investigations activity during fiscal year 1984 and to refrain from generating additional profits in the training activity during fiscal year 1983. (See p. 7.)

Also, in the past, OPM did not operate its training activity on an actual cost basis because it did not recover all operating costs of executive training. Instead, during calendar

years 1975 to 1981, it used \$2.4 million in appropriated funds to pay costs of providing reimbursable executive training. (See pp. 7 and 8.)

GAO believes that clearly defining the statutory concept of operating each revolving fund activity on an "actual cost basis over a reasonable period of time" may help prevent these situations from occurring again. At the time of GAO's review, OPM had not precisely defined these terms. Activity managers were not adhering to the actual cost concept and were defining a reasonable period of time differently.

ADDITIONAL ACTIONS WOULD IMPROVE FINANCIAL MANAGEMENT

In 1982, during GAO's review, OPM improved its revolving fund budget guidance, but additional guidance can make the budget process more effective. OPM uses revolving fund performance indicators such as cash flow, condition of assets and liabilities, profit, loss, and retained earnings. However, no performance standards (tolerances) were established which when exceeded would require action to be taken to bring the performance back to within an acceptable range. Instead, managers subjectively determined whether problems existed and when action should be taken. (See pp. 10 to 13.)

RECOMMENDATIONS

GAO recommends that the Director, OPM:

- Clearly define the terms "actual cost basis" and "reasonable period of time."
- Establish financial performance standards for revolving fund activities and require written plans for correcting deviations from the standards.
- Require that plans and budgets for subsequent years recognize past performances and identify how and when financial problems will be corrected.

AGENCY COMMENTS

OPM said it will (1) more clearly define the policy that the revolving fund should operate on an actual cost basis over a reasonable period of time, (2) establish performance tolerances for the fund and require plans for corrective action, and (3) require that plans and budgets for subsequent years recognize past performance and outline corrective action required. OPM said, however, that it needed managerial flexibility in operating the fund and that it should not be required to operate on a break-even basis over the short term. GAO agrees but believes that operating with deficits or surpluses for 5 or more years is not consistent with the statutory goal of operating each activity on an actual cost basis to the maximum extent feasible. OPM did not believe the report gave sufficient credit to the progress it had made during the past 2 years to correct the problems identified. GAO made some changes in the report to give more recognition to OPM's efforts. (See app. I.)

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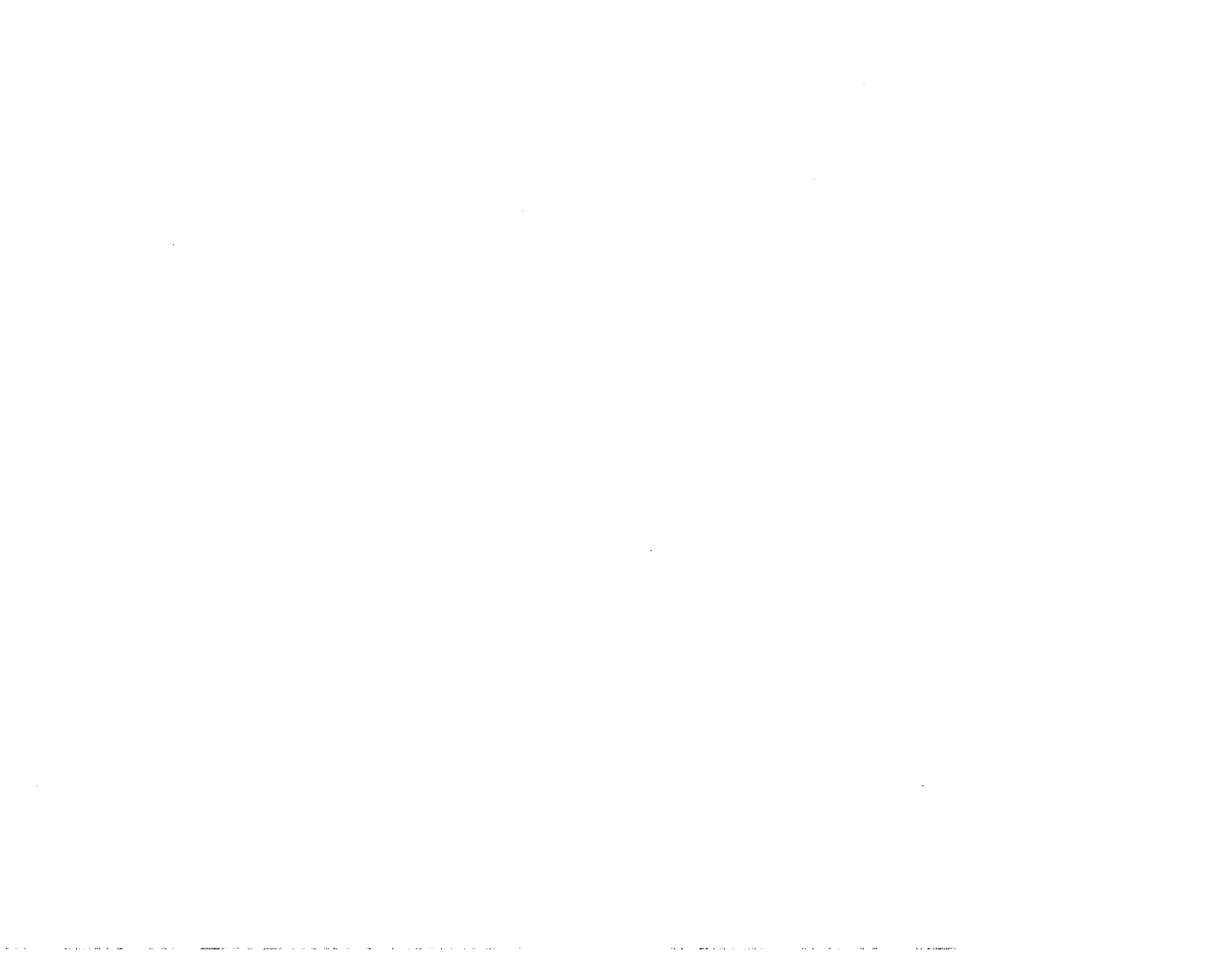
Public Law 91-189 requires that the Comptroller General report on activities financed by OPM's revolving fund. This review, which addressed planning, budgeting, and other financial management aspects of the fund, was conducted to meet that requirement.

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ABBREVIATION

OPM Office Of Personnel Management



CHAPTER 1

INTRODUCTION

The Supplemental Appropriation Act of 1952 authorized the Civil Service Commission (now the Office of Personnel Management (OPM)), to operate a revolving fund to finance certain background investigations of Federal employees and persons who were being considered for sensitive positions.

At the request of the Commission, Public Law 91-189 (5 U.S.C. 1304(e)) was enacted in 1969. This law expanded the revolving fund to include training and other reimbursable functions the Commission was authorized or required to conduct, so that development costs, profits, and losses could be carried over from year to year. The law required that "To the maximum extent feasible, each individual activity shall be conducted generally on an actual cost basis over a reasonable period of time."

During fiscal year 1982, OPM financed several reimbursable activities through the revolving fund. These included executive and nonexecutive training, full background personnel investigations, an intergovernmental personnel program, testing of potential Department of Defense military recruits, the President's Commission on Executive Exchange, and a health center for Federal agencies in St. Louis, Missouri.

OPM estimates in advance of each fiscal year what services it will be requested to provide. It then sets prices for its two predominant services, training and investigations. This helps customer agencies budget for and obtain necessary appropriations. The Department of Energy is OPM's largest customer for investigations, and the Department of Defense is its largest customer for training. OPM provides the services as requested, and the agencies pay OPM when billed. Many Federal agencies now are billed through the Department of the Treasury's automatic billing system, which credits OPM's account more quickly than OPM billing the agencies directly.

In fiscal year 1982, investigations and training activities accounted for almost 93 percent of the revolving fund revenue. The following chart shows their financial performance during the past 5 fiscal years.

<u>Activity</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
	(millions)				
Personnel investigations:					
Revenue	\$19.9	\$20.4	\$21.3	\$27.6	\$28.2
Expense	19.8	21.0	25.0	29.8	24.3
Profit or (loss)	0.1	(0.6)	(3.7)	(2.2)	3.9
Accumulated year-end deficit	(0.3)	(0.9)	(4.6)	(6.8)	(2.9)
Training:					
Revenue	26.5	28.2	33.7	40.6	37.3
Expense	25.3	27.4	31.6	38.0	38.2
Profit or (loss)	1.2	0.8	2.1	2.6	(0.9)
Accumulated year-end surplus	0.9	1.7	3.8	6.4	5.5

OPM's Administration Group is responsible for managing the revolving fund, including planning, budget preparation, financial analyses, and maintaining financial integrity. The Administration Group's Office of Finance and Budget is primarily responsible for carrying out these duties. The Compliance and Investigations Group and the Workforce Effectiveness and Development Group are responsible for managing the investigations and training activities, respectively.

OBJECTIVE, SCOPE, AND METHODOLOGY

Public Law 91-189 requires the Comptroller General to report to the House Post Office and Civil Service and Senate Governmental Affairs Committees on activities financed by the revolving fund. Our past reports ^{1/} have focused primarily on accounting matters. This report addresses planning, budgeting, and other financial management aspects of the fund.

Our objective was to determine whether OPM's policies and management controls provided for sound financial management of the revolving fund. We researched available legislative history relating to its operation. We reviewed OPM's administrative manuals, procedures, and documents relating to planning,

^{1/}Report on Civil Service Commission revolving fund (B-110497, Feb. 20, 1973); Report on Civil Service Commission revolving fund (FPCD-76-56, June 25, 1976); and Report on Civil Service Commission revolving fund (FPCD-78-93, Dec. 12, 1978).

budgeting, and financial management of the revolving fund. We also reviewed related Office of Management and Budget circulars and our prior reports.

We interviewed OPM officials concerning OPM's policies and procedures for financial management of the revolving fund and its activities.

To determine whether OPM's policies and management controls provided for sound financial management of the revolving fund, we compared its policies and practices with the requirements of Public Law 91-189. We then compared various OPM officials' interpretations of recovering revolving fund costs over a reasonable period of time with provisions in the law. We also evaluated OPM's monitoring of the revolving fund and compared it with policies and procedures in its administrative manuals and other relevant documents. In addition, we evaluated actions taken to identify and resolve financial problems in terms of the public law requirements.

We conducted our review at OPM in Washington, D.C., from November 1981 through October 1982 in accordance with generally accepted Government audit standards.

CHAPTER 2

CLEARER POLICIES ON REVOLVING FUND OPERATIONS

COULD IMPROVE FINANCIAL MANAGEMENT

OPM's policy on revolving fund financial performance does not clearly define the terms "actual cost basis" or "reasonable period of time," although these are key factors in revolving fund management. OPM officials permitted (1) individual revolving fund activities to accumulate surpluses and deficits over several years, (2) the training activity to generate profits to offset losses incurred by the investigations activity, and (3) the training activity to be subsidized inappropriately with OPM's appropriated funds. Enforcing a more specific policy would help assure that all reimbursable costs are recovered and would be consistent with the statutory goal of operating each activity on an actual cost basis.

POLICY GUIDING REVOLVING FUND OPERATIONS IS NOT CLEAR

OPM's policy documents on revolving fund operations do not include clear definitions of the terms "actual cost basis" or "reasonable period of time." OPM's policy on revolving fund operations only paraphrases the law. The Budget and Finance Division, on January 9, 1970, issued guidelines for implementing the law. These guidelines state that, as a general rule, the authority to spend money on reimbursable work will be limited to the amount of income generated. Also, the Federal Personnel Manual, Supplement 410-41, states that, generally, the actual costs of training are required by law to be in balance with the income earned over a reasonable period of time.

Different OPM officials gave us different interpretations of the "reasonable period of time" over which each activity should recover actual costs. The Assistant Director of the Office of Finance and Budget believed that 3 years was reasonable. The OPM revolving fund manager said that specifying a time period would be difficult because the fund had no control over internal and external factors that could affect the length of the period. Activity officials thought that from 1 to 6 years was reasonable.

OPM's managers allowed major revolving fund activities to operate with deficits and surpluses over several years. At the end of fiscal year 1981, when we began our review, the investigations activity had accumulated a \$6.8 million deficit, and the training activity a \$6.4 million surplus. Activity

managers and financial managers told us that the training activity surpluses as a matter of practice were generated to offset the investigations activity losses.

By permitting deficits to continue, OPM officials were faced with the possibility of ceasing operations to avoid an Antideficiency Act ^{2/} violation. Moreover, OPM permitted training activities to generate surpluses. The following is a chronology of efforts made by OPM officials to resolve revolving fund financial problems and reverse investigations activity losses. The chronology includes a discussion of the decision to subsidize training activities with appropriated funds.

Financial problems
continued until the
beginning of fiscal year 1982

In preparing for a March 1980 quarterly review of revolving fund activities, OPM budget officials noted that the number of investigations being completed was below estimates and would cause a deficit of about \$3 million. Budget officials asked investigations activity officials whether production could be increased to avoid the deficit and whether they should consider a price increase. Activity officials responded that they planned to complete more investigation cases by increasing the investigator staff and streamlining investigation review and processing.

In June 1980, a budget official noted that the planned production increase had not materialized, that the number of investigations being completed was still below estimate, and, in fact, the number had decreased during the most recent accounting period. He further noted that costs had exceeded income, creating a severe cash problem in the revolving fund. Projecting an accumulated \$4.8 million deficit at the end of the year, he asked activity officials to assess the problem and present plans for solving it.

^{2/}The Antideficiency Act, 31 U.S.C. 1341(a)(1), provides under penalty that "An officer or employee of the United States Government * * * may not (A) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation * * *." The Office of Management and Budget interprets this, for revolving funds, to mean obligations cannot be incurred that are greater than budgetary resources; that is, cash, accounts receivable, unfilled customer orders, and customer advances.

The activity officials maintained that they still expected production increases within fiscal year 1980 and even greater increases in the next fiscal year by increasing investigator staffing and streamlining investigation review and processing. The situation was exacerbated by the hiring of additional staff which increased costs without appreciably increasing the number of cases completed. One official stated that, although he expected a major increase in output, he did not foresee eliminating the deficit by the end of fiscal year 1980, nor did he believe it was necessary to do so. He expected to reduce the existing deficit to \$2.2 million by the end of fiscal year 1980 and proposed increasing rates for fiscal year 1981 to further reduce the deficit.

Although the rates for 1981 were increased, the revolving fund's cash situation worsened early in fiscal year 1981 and came within less than \$400,000 (less than 1 week's revolving fund payroll) of exceeding its budget authority, an Antideficiency Act violation. Beginning in February 1981, activity officials took actions to reduce costs. These actions included detailing investigators to other programs and reducing administrative travel. Then, in May 1981, officials attempted to further reduce costs by cutting back on overtime. Despite these measures, the deficit continued to mount.

In a September 1981 memo to the Director, OPM, the Director of OPM's Office of Management stated that the investigations deficit would reach \$7.8 million by the end of the fiscal year and would exceed \$9 million by January 1982. She further stated that continuing investigations losses had reduced the fund's resources to an unsafe level, and only the profitability of the training activity had kept the revolving fund solvent in fiscal year 1981. She stated the following: that OPM officials could not depend on training programs to support the investigations activity; that, according to legislation, each program is to break even over a reasonable period of time; and that they could not afford to let claims against the fund exceed budgetary resources. She told the Director that her office and the investigations activity would develop a comprehensive plan to bring personnel and other costs in line with fiscal year 1982 workload projections.

On October 8, 1981, the Assistant Director, Office of Personnel Investigations, submitted a "get well plan" to the Director, OPM, which contained several proposals to reduce costs. The plan noted that overstaffing was the major contributor to the deficit and that "immediate drastic action" was needed to bring staffing in line with workloads. The plan

called for personnel furloughs and a reduction in force to eliminate the estimated 200 excess investigations personnel.

The Associate Director responsible for investigations was advised that the fund could be in an antideficiency situation in as little as 2 months. He said that the plans for furloughs and the reduction in force were driven primarily by the need to avoid the antideficiency situation. On October 15, 1981, the Director, OPM, approved the plan. OPM officials told us that because enough employees were detailed from or voluntarily left the investigations activity, the furloughs and reduction in force were not implemented.

While proposing the cost reductions to bring the investigations activity closer to breaking even, the "get well plan" did not provide for eliminating the accumulated deficit. Furthermore, OPM did not develop specific plans at that time for eliminating the accumulated training surplus. However, in his May 1982 budget guidance for 1983-84, the revolving fund manager advised investigations officials to develop plans for further cost savings and for a pricing structure that would eliminate the accumulated deficit during fiscal year 1984. At the same time, he told training officials not to generate additional profits in fiscal year 1983, but he did not require them to eliminate the accumulated surplus. Initial investigations planning generally followed this guidance but training plans did not include expected revenues, nor did they include a discussion of profit, loss, or the accumulated surplus.

Training costs improperly subsidized

In the past, OPM did not operate its training activity on an actual cost basis because it did not recover all operating costs of executive training. OPM officials used a total of \$2.4 million in OPM appropriated funds, during calendar years 1975 to 1981, to help pay rent and utility costs of the Federal Executive Institute, an OPM revolving fund training facility. Also, during fiscal year 1981, \$32,000 of OPM's appropriated funds was provided to OPM regional offices for developing executive training courses to be offered through the revolving fund. The funds were appropriated in part to pay salaries and expenses of the Civil Service Commission and OPM for the development of executive management.

Officials of OPM's Office of Finance and Budget stated that OPM did not have a policy prohibiting the use of appropriated monies to pay revolving fund costs. They said that OPM does have a policy of using appropriated funds to promote OPM's training leadership role. They believed that subsidizing

executive training was consistent with that policy. However, OPM documents showed that the \$2.4 million was actually used to subsidize the Federal Executive Institute's costs so that its prices would be more competitive with other executive training vendors, thereby enabling the Institute to generate additional business. The practice was stopped in fiscal year 1982 because an OPM official believed that continuing the subsidy was unnecessary and unfair to competing institutions.

Although the use of appropriated funds to subsidize the training activity may not have been inconsistent with the purpose of the appropriation, we believe such use is not consistent with the statutory goal of operating each activity on an actual cost basis.

CONCLUSIONS

OPM's policy guiding revolving fund operations has not clearly defined the terms, "actual cost basis" and "reasonable period of time." The revolving fund experienced severe financial problems, due primarily to overstaffing in the investigations activity, which were not corrected until managers were faced with the possibility of ceasing operations to avoid an Antideficiency Act violation. While the investigations activity accumulated deficits between 1978 and 1981, the training activity was allowed to accumulate surpluses. Furthermore, training costs were improperly subsidized which was not consistent with the goal of the law. We recognize that many factors affect the operation of revolving fund activities. However, we believe that enforcing a more specific policy would provide the basis on which to promptly identify, prevent, and correct problems such as deficits and surpluses; would help to assure that all reimbursable costs are recovered; and would be consistent with the statutory goal of operating each activity on an actual cost basis.

RECOMMENDATION

We recommend that the Director, OPM, clearly define the terms "actual cost basis" and "reasonable period of time." The clarification should (1) state the period of time over which actual costs must be recovered, (2) require activities to account for and recover their full costs, and (3) prohibit using appropriated funds to pay for revolving fund expenses.

AGENCY COMMENTS AND OUR EVALUATION

OPM said that it will work to clarify definitional ambiguities in the revolving fund statute by preparing a more

clearly stated policy on the revolving fund and providing definitions for key language of the statute. However, OPM stated that the revolving fund statute allowed for management flexibility so that the fund would not have to operate on a break-even basis over the short term.

We agree that the Congress intended that OPM have managerial flexibility in operating the revolving fund and that each activity not necessarily operate on a break-even basis each year. However, we believe that operating with deficits or surpluses for 5 or more years is not consistent with the statutory goal of operating on an actual cost basis to the maximum extent feasible. Therefore, OPM's new policy should define the short term over which activities could operate otherwise.

CHAPTER 3

STRONGER MANAGEMENT CONTROLS WOULD HELP

TO IDENTIFY AND ACT ON FINANCIAL PROBLEMS

OPM used program estimates, cost-based operating budgets, and periodic analyses of financial performance as revolving fund management controls. However, OPM's budget guidance has not adequately addressed the financial results of revolving fund operations. In addition, financial managers have not established performance standards which could help in identifying and acting on potential problems.

BUDGET GUIDANCE COULD BE FURTHER IMPROVED

Before our review, revolving fund budget guidance did not address the Public Law 91-189 requirement that the fund operate on an actual cost basis; it did not address the current financial performance of revolving fund activities; and it did not require that activity officials submit budgets that would include proposals for correcting financial problems.

During our review, budget guidance was improved, but additional guidance is needed to make the budget process more effective. Still missing is a requirement to develop plans and budgets which address past financial performance (including surpluses and deficits) and explain how and when needed corrective action will be taken.

OPM's budget guidance required that, before preparing initial budgets, activity officials should prepare planning assumptions, which incorporate such factors as workload receipts, production expectations, and planned activity growth or contraction. Our review of fiscal years 1979 to 1982 activity planning assumptions showed that two of them included limited discussions of financial performance: nonexecutive training managers were told in 1979 to plan for a minimum profit of 5 percent for fiscal year 1980; executive training officials were told in 1979 to plan, at a minimum, for income to equal costs for fiscal year 1982. Other activities' planning assumptions generally identified production and workload expectations but did not discuss their possible effects on financial performance.

In 1982, during our review, guidance for preparing initial budget plans for fiscal years 1983 and 1984 contained more financial direction than had past guidance. Training activity officials were told to set prices that would not increase the accumulated surplus during fiscal year 1983. Investigations

activity officials were required to implement cost savings and set prices to eliminate the cumulative deficit during fiscal year 1984. For the first time since 1979, the guidance also required activity officials to include revenue estimates in their budget submissions.

Although initial guidance for the fiscal years 1983-84 budget was improved, it still did not require activity managers to submit information that financial managers needed to adequately assess resource requirements, allocate personnel, and monitor budget implementation. Activity managers were not required to include information about past or current financial performance in their initial plans. For instance, they did not have to discuss their accumulated surpluses or deficits, identify program adjustments required to correct financial problems, indicate how adjustments would affect accumulated surpluses or deficits, or show a time period in which adjustments would be made.

OPM TOOK ACTION TO IMPROVE REVOLVING FUND MONITORING

OPM established the Office of Finance and Budget in January 1982 to provide better financial planning and monitoring. The Associate Director of that Office was delegated authority to restrict (subject to concurrence by the Director, OPM) authorized spending programs for reimbursable activities to amounts that could reasonably be realized as income to cover costs of operation. He was also delegated authority to provide and administer a financial and work report system to facilitate control over expenditures of approved programs.

OPM relied on its Office of Finance and Budget to monitor the revolving fund's financial performance and to prepare reports showing its financial condition. While these reports contain information about the financial condition of the revolving fund and its activities, they do not contain comparisons with previously established operating budgets.

For each 4 week accounting period and four times a year, the Budget Division of that office prepares reports on the status of profits, losses, and obligations to date for both the revolving fund and its activities. We were told that the revolving fund manager uses the reports to oversee the revolving fund, and the OPM Deputy Director uses them during quarterly management reviews of program and financial issues. Budget Division officials said the reports are meant to provide a "quick glance" at how revolving fund activities are performing. Office of Finance and Budget officials stated that, since

quarterly management reviews do not focus specifically on budget execution, overview data is sufficient.

Each 4 week accounting period the Financial Management Division prepares financial statements of profit, loss, and retained earnings for the revolving fund and each of its activities. It also prepares status reports on the revolving fund and the personnel investigations activity. These status reports show the actual amounts of revolving fund assets and liabilities, periodic and cumulative retained earnings by each activity, case receipts and completions for the investigations activity, and updated narrative descriptions of each activity's operations. No separate status reports are prepared for the training or other revolving fund activities. The reports are submitted to the Assistant Director for Finance and Budget for his use in monitoring the fund.

Personnel salaries and benefits account for approximately two-thirds of revolving fund operating costs. Consequently, control of the revolving fund depends heavily on proper staffing and management of activity personnel. Because staffing levels contained in operating budgets are based on workload estimates that are often made 6 months in advance of a fiscal year, monitoring their relationship to actual workloads is critical for early detection of overstaffing.

The Budget Division monitors staffing levels for each operating group as a whole, without regard for the appropriation or fund from which the staff is paid. Budget did not routinely compare revolving fund staffing levels with actual and forecasted workload projections. The Division relied on activity managers to monitor their own revolving fund staffing levels.

PERFORMANCE STANDARDS ARE
NEEDED TO PROMPTLY IDENTIFY
FINANCIAL PROBLEMS

Office of Finance and Budget officials monitor and analyze such revolving fund performance indicators as cash flow, condition of assets and liabilities, profit, loss, and retained earnings. These indicators help them to judge financial performance and to spot potential financial problems. However, no performance standards were established. Decisions on what constitutes a problem and when action should be taken were based on individual judgments.

In the past, OPM recognized the importance of establishing performance standards (tolerances) to judge actual performance. Its Administrative Manual Supplement 14-1, which was abolished in 1980, defined tolerances as a plus or minus range within

which a performance is considered acceptable. The manual required managers to explain in narrative reports any performance variances beyond the tolerances. The narratives were to be part of a trend report that was to help management identify and act on potential problems. However, OPM discontinued preparing the manual and the trend reports in 1979 because managers were not using them.

Several program and management officials stated that they knew "intuitively" what revolving fund performance standards should be, but formalizing them would be a "paper exercise." However, as shown in chapter 2, OPM officials did not correct financial problems until they faced a financial crisis. Whatever subjective determinations were made, they did not highlight to OPM senior management that financial performance was heading toward an antideficiency violation until the crisis was at hand.

CONCLUSIONS

We believe that revolving fund budgets could not be used effectively for monitoring and controlling activities before 1982 because budget guidance was inadequate. Then, in 1982 OPM improved its guidance with more specific direction. However, OPM could strengthen its guidance and budget oversight with additional requirements. We further believe that financial problems could be identified and resolved more quickly if performance standards were developed.

RECOMMENDATIONS

We recommend that the Director, OPM:

- Establish financial performance standards for revolving fund activities and require written plans for correcting deviations from the standards.
- Require that plans and budgets for subsequent years recognize past financial performances and identify how and when financial problems will be corrected.

AGENCY COMMENTS AND OUR EVALUATION

OPM stated that financial performance tolerances will be established for revolving fund balances and written plans required should the tolerances be exceeded. OPM further stated that it will require that plans and budgets recognize past performance and outline corrective action if needed.

United States of America
**Office of
Personnel Management** Washington, D.C. 20415

In Reply Refer To

MAY 25 1983

Your Reference:

Honorable Charles A. Bowsher
Comptroller General of the United States
General Accounting Office
Washington, D. C. 20548

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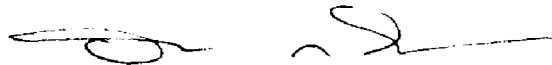
RECEIVED
GENERAL ACCOUNTING OFFICE
MAY 25 1983

Dear Mr. Bowsher:

Thank you for the opportunity to review and comment on the draft report FPCD-83-24, on the Office of Personnel Management's revolving fund. I have implemented organizational and operational changes that have resulted in improvements in the financial operation of the revolving fund. Presently, the investigations program is almost at break even, and the surplus in the training program has been reduced. I will work to ensure that each activity in the fund continues to maintain a reasonable position.

While I agree with the report that some changes were needed to correct past management of the fund, I feel the report does not give sufficient credit to the substantial progress made during the past two years to correct the problems identified. In light of this progress, I have suggested certain revisions in your report. Those suggestions as well as comments on the report are enclosed.

Sincerely,



Donald J. Devine
Director

Enclosure

OPM's Comments on Draft GAO Report

Overall, the report on OPM's revolving fund implies that the operations of the fund were poorly planned, executed, and controlled over a long period of time. However, on page 2 of the report is a chart that shows that from 1952 until 1978, a period of 27 years, the investigations program had an accumulated deficit of \$300,000. Likewise, the training program showed a surplus of \$900,000 for 10 years of its operation in the revolving fund. It is significant to note that both programs financed hundreds of millions of dollars of activity in this timeframe and ended FY 1978 in a sound and stable condition with reasonable balances. As the report states, the revolving fund statute requires that, "To the maximum extent feasible each individual activity shall be conducted generally on an actual cash basis over a reasonable period of time." It appears clear from that language that the Congress intended to provide some flexibility to the agency in managing the fund with the use of language such as, "feasible", "generally", and "reasonable period". The Congress recognized the complexity of managing the fund and the language further provided, "... balances in the fund which the Office determines to be in excess of amounts needed for activities financed by the fund shall be deposited in the Treasury of the United States as miscellaneous receipts." This language implies that the Congress recognized that potential imbalances could be encountered in managing the fund in the short term and provided a corrective procedure.

It is true that, during FY 1979 until the middle of FY 1981, the two major activities of the fund deviated substantially from their estimates, but the problem did not go unnoticed. The report states that controls were ineffective and financial problems were not identified (page 13) while it also states (pages 5 & 6) the chronology of the identification and monitoring of the problem as it occurred - starting in FY 1980. By FY 1982 both major programs were reversing their trends and now in FY 1983 the investigations' problem has been substantially improved and we are committed to further reducing the training surplus.

Therefore, we are suggesting that although there was a period where events outstripped expectations of future workloads and corrective actions in the major programs, that overall the fund is being handled in a manner consistent with what the Congress intended. The wording in the law allows us the management flexibility to avoid precipitous action in the short run based solely on break-even considerations and provides management time to weigh other equally important considerations such as customer demand, investments in trained staff, cash-flow, and productivity improvements, so that we can manage the fund, programs and their products in the most efficient and effective manner possible. We are committed to this concept.

(GAO Note: Page references have been changed to agree with the final report.)

The following comments address specific findings reflected in the report:

Page ii - Recommend changing the first sentence of paragraph two as follows - Although the approved actions were not expected to eliminate the deficit during FY 1982, they were expected to result in reducing the accumulated deficit and bring the investigations activity closer to an actual cost basis.

(GAO Note: The report has been changed to reflect this comment.)

Page ii - The decision to use appropriated funds for certain expenses related to revolving fund activities had nothing to do with a lack of clear revolving fund policy, but rather because CSC/OPM top management at that time felt their legislated role for training leadership and executive development required an institutional commitment to these programs. However, as you state, this practice was stopped at the end of FY 1981.

(GAO Note: The report has been changed to clarify this section.)

Page iii - We believe our present budget review process and the monthly financial and management analysis of the revolving fund programs which we have implemented, address the problems reflected in these recommendations. We will work to clarify the definitions of "actual cost basis" and "reasonable period of time."

(GAO Note: See GAO evaluation on p. 8 of this report.)

Page 1 - The activities listed as being financed through the revolving fund omitted the Federal funds for training Federal participants in the President's Commission on Executive Exchange.

(GAO Note: The report has been changed to correct this omission.)

Page 4 - As discussed earlier, several statements in the first paragraph conflict with other parts of the report and with our position on these issues. Contrary to what the report states, problems were identified promptly. In the face of anticipated increases in workload, we sought to avoid severe personnel actions such as RIF and furlough of experienced investigators. We feel the long term and current condition of the fund prove that we do foster the concept of operating on an actual cost basis. The problems on which the report focuses occurred during approximately 2 1/2 years and are now well on the way to being corrected.

(GAO Note: The report was changed to delete the statement that OPM did not promptly identify the fund's financial problems.)

Page 5 - For approximately 6 months while the revolving fund was close to antideficiency, training officials were asked not to take any action to correct their surplus in the short term, while management action was being taken to overcome the investigation program's losses. There has never existed a policy to offset one activity's losses with another activity's surplus.

(GAO Note: While OPM did not have such a policy, agency officials said it was their practice to do so.)

Page 6 - The reference to the September 1981 memo from the Director of the Office of Management, further affirms our efforts to promote the concept of actual cost basis, and the fact that one activity could not be permitted to offset another activity's financial results. This directly contradicts statements made elsewhere in the report and we feel should be reflected in other references in the report.

(GAO Note: We disagree. The memo merely points out to OPM management that what they are doing is wrong.)

Page 7 - While we agree that our documents show that \$2.4 million was actually used for FEI space costs, the report implies that OPM used these monies to make prices more competitive with other training vendors. This is not so. The intent was to show OPM support for its leadership role in executive development. OPM management felt that FEI had a valuable program which government executives should attend. As the report states, this practice was stopped and agencies are fully supporting the FEI with their continued participation.

(GAO Note: OPM documents show that subsidy was made to make prices competitive.)

Page 6 - Although a plan was developed to RIF and furlough investigators, if required, to avoid specifically an antideficiency situation it was never implemented. Through other management actions we were able to correct the investigations program's financial position while also avoiding antideficiency. The plan was prepared at management's direction, to ensure compliance with the law.

(GAO Note: The report has been changed to clarify this section.)

Page 8 - We plan to prepare a more clearly stated policy on the revolving fund and to provide definitions for key language of the statute. However, because the revolving fund is "no-year" funding and since the planning and review process is an on-going function, any stated policy must remain flexible, consistent with Congressional intent.

Page 10- As stated earlier, problems were and continue to be identified as they occur through periodic and quarterly reviews of funding and workload/productivity measures.

Page 11- The Office of Finance and Budget was established in January 1982 to provide better financial planning and monitoring throughout the agency. This office now serves as the main financial staff to the Revolving Fund financial manager and to the Director and Deputy Director of OPM.

(GAO Note: The report was changed to reflect this comment.)

The Budget Division, at the Director's request, summarizes revolving fund data for the Quarterly Management Reviews with the Deputy Director. These reviews focus on budget execution and address the financial progress of each program. At the same time, the Financial Management Division prepares additional, but coordinated, reports in greater detail every four weeks for the revolving fund manager's review and if necessary for program comment. These reports focus on the operations of each program, including the status of income/cost, workloads, cash flow, assets and liabilities of the fund. A comparison to budget is not of significant value since customer demand and other outside influences can substantially affect spending levels.

Page 12 - Since the inception of the revolving fund in 1952 and even before, CSC/OPM has had a system to relate staffing levels (work-years) with programs, functions and workloads. This detailed functional data is computer generated every four weeks as part of the financial reports. Although it may not be reviewed by OF&B staff each period for every revolving fund function due to the volume, it is available to program managers and is used by financial and/or program staff in periodic analysis, problem identification, problem solving, and in adjusting ceiling allocations.

(GAO Note: In view of the actions described above, GAO has dropped its proposal to improve periodic status reports.)

Page 13- In response to the recommendations:

- We will continue to require that plans and budgets recognize past performance and outline corrective action if required.

(GAO Note: We discussed this issue with an OPM official who agreed that OPM has not been requiring that plans and budgets recognize past performance and outline corrective action. However, OPM is currently planning to provide such requirements.)

- Financial tolerances will be established for revolving fund balances and written plans will be required should the tolerances be exceeded.

- We will continue our monthly and quarterly reviews to provide financial and program information to ensure proper management oversight of the financial and program operations of the fund.



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