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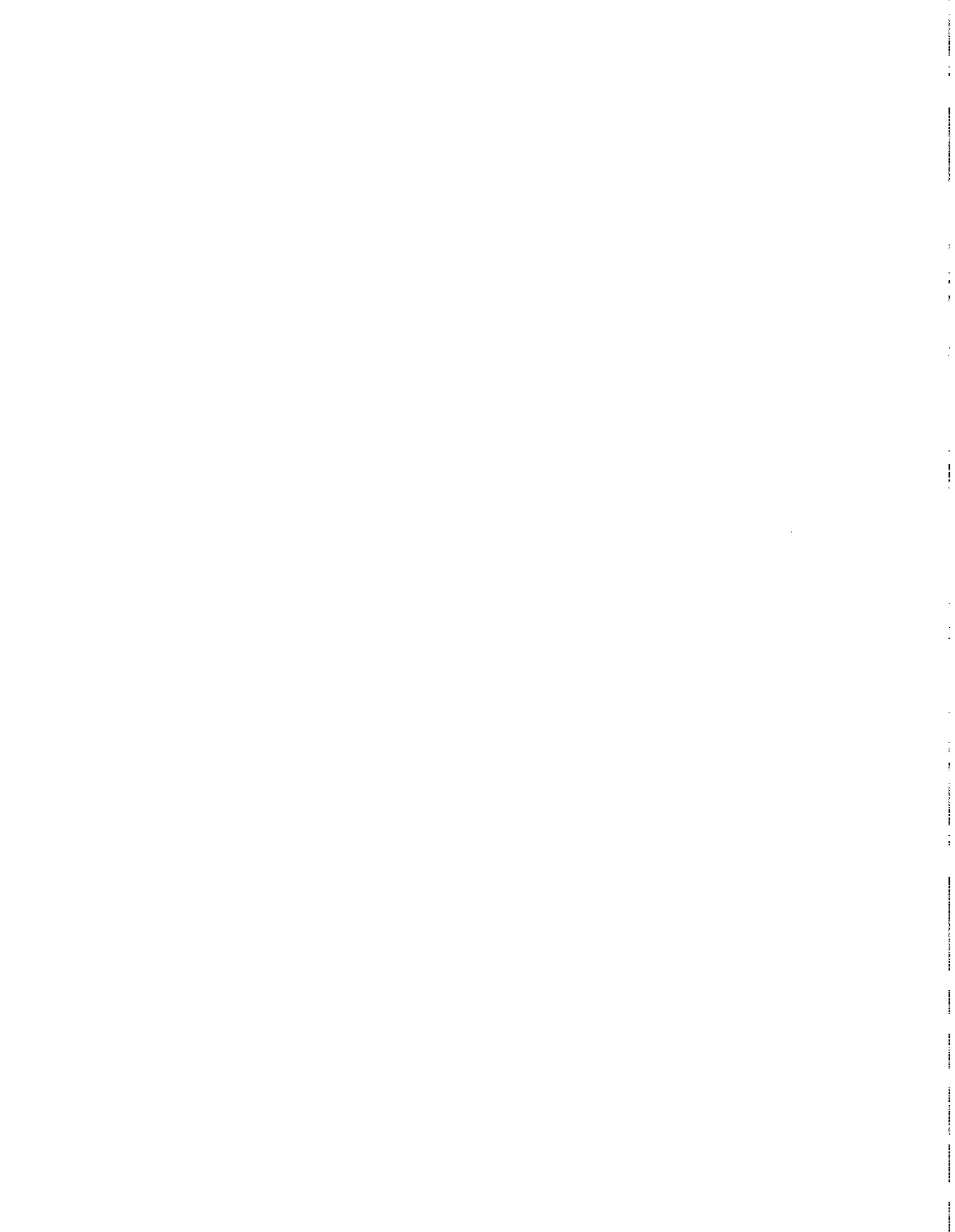
Report to the Chairman, Subcommittee
on Federal Services, Post Office and
Civil Service, Committee on
Governmental Affairs, U.S. Senate

April 1994

OPM REVOLVING FUND

OPM Sets New Tuition Pricing Policy







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

General Government Division

B-253809.3

April 6, 1994

The Honorable David H. Pryor
Chairman, Subcommittee on Federal Services,
Post Office and Civil Service
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

This report responds to your request that we review the tuition setting methods for training courses included in the Office of Personnel Management's (OPM) revolving fund. You were concerned that the tuitions charged to federal agencies for certain courses appeared to unnecessarily exceed OPM's course production costs. As agreed with the Subcommittee, we attempted to determine (1) how tuition charges are set; (2) whether the tuitions of individual courses are reasonably related to their costs; and (3) how excess tuition income, if any, has been used. The lack of documentation about how tuitions are set impaired our ability to answer the first objective. However, we were able to respond to the second and third objectives by testing the reasonableness of individual course tuitions relative to costs for 14 judgmentally selected courses and by obtaining OPM officials' explanation concerning how excess tuition income has been used.

Background

In 1952, the OPM revolving fund was established to enable OPM to finance reimbursable background investigations for federal agencies. In 1969, Congress amended the law to authorize OPM to also use the fund to finance reimbursable training courses for federal agencies. All reimbursements for both of these activities are to be deposited into the fund. In fiscal year 1992, investigations and training activities accounted for about 96 percent of the revolving fund revenue. Appendix I shows the financial performance of these activities during fiscal years 1988 through 1992.

For each fiscal year, OPM estimates the services the revolving fund will be asked to provide. It then sets prices for the fund's training and investigation activities so that customer agencies can budget for these charges and obtain the necessary appropriations. Under Public Law 91-189 (5 U.S.C. 1304(e)(1)), to the maximum extent feasible each activity of the revolving fund shall be conducted generally on an actual cost basis over a reasonable period of time, defined by OPM as 3 to 5 years.

Results in Brief

We could not determine how OPM sets tuitions because the tuition determination methods for the courses we reviewed were not documented. OPM training officials said that tuitions for many of the courses were set long ago, and documentation had not been maintained.

Although OPM's financial reports show the direct costs associated with each course, OPM does not allocate indirect costs to individual training courses. Thus, in order to test the reasonableness of individual course tuitions relative to their total costs, we allocated a portion of the training center's indirect costs to each of the 14 courses we reviewed. The amount allocated to each course was proportional to the course's direct costs. Using this methodology, we found that course revenues as a percent of total costs varied widely among courses—ranging from 25 percent to 257 percent. Three courses operated at a loss.

In explaining how excess tuition income had been used, OPM officials acknowledged that the income of some courses offset the losses of other courses; they believed that some courses were necessary and should be provided even though they may not recover their costs. Although the law states that, to the maximum extent feasible, the training activity shall be conducted generally on an actual cost basis over a reasonable period, the law does not require OPM to recover the actual costs of each course from that course's income.

In the past, the training activity as a whole generated net income and positive account balances. However, since fiscal year 1989, OPM has reported annual losses from the training activity resulting in a cumulative deficit of \$7.7 million at the end of fiscal year 1992. OPM officials have developed a new policy for pricing training courses. The pricing policy has among its objectives assurance that (1) prices would be set so that the training activity would recover all direct and indirect costs, (2) pricing methods would be documented, and (3) differences in pricing practices would be reduced.

Scope and Methodology

In pursuing our objectives, we reviewed applicable legislation, OPM's administrative procedures, financial statements concerning the training activity, course files, our prior reports, and OPM Inspector General reports. We reviewed 16 courses from 2 of OPM's 7 training cost centers to determine how OPM established tuitions. The two cost centers we reviewed—the Government Affairs Institute and the Office of Washington Training and Development Services—were located in the Washington,

D.C., area. We went through several steps to identify and select these courses. OPM groups similar courses together, under subjects such as "governmental affairs" or "supervision," and publishes financial reports showing the income and direct costs associated with each group. Using OPM's published reports, we determined which groups of courses appeared to be making a profit and which appeared not to be making a profit. We then selected four groups—two from each category—and four courses from each group for further study. We selected one of the four groups because it included a course in which the Subcommittee was interested. We randomly selected the 3 other groups and the 15 other courses.

To determine the reasonableness of individual course tuitions relative to their costs, we selected all 14 of the courses offered in the course group containing the course in which the requester had expressed interest. Four of the courses were included in the 16 we reviewed to determine how tuitions were established. These 14 courses were offered in the 3-year period, fiscal years 1989 through 1991.

We performed our review at OPM sites in Washington, D.C., from January 1992 through March 1994. We obtained written comments from the Director, OPM, on a draft of this report (see app. II). Our work was conducted in accordance with generally accepted government auditing standards.

Difficulty in Determining How Tuitions Are Set

In fiscal year 1992, tuition for OPM-provided interagency training courses ranged from about \$200 per person for a 1-day course to \$900 per person for a 5-day course. OPM also provided courses devoted to employees of a specific agency and typically given at an agency site. Tuition for these "single-agency courses" ranged from about \$8,000 to \$24,500 per course, depending on the number of participants and the length of the course (usually 5 days or less).

Regarding interagency courses, OPM training officials at the two centers we visited said tuitions for many of the interagency courses were set long ago, before they themselves were involved in the program, and that documentation on how the tuitions were set was not maintained. OPM guidance to cost center managers has encouraged them to adjust the tuition for each course to recover projected cost increases or decreases for that course. OPM officials said that tuitions are examined annually on the basis of projected costs to determine whether such adjustments are

necessary. In addition, the officials said that determinations are made about whether to continue a course on the basis of the number of projected participants.

For the courses we reviewed at the Government Affairs Institute, we found that tuitions went unchanged for 1990 and 1991 even though a major component of course cost—federal salaries—increased. We also found that where tuitions were changed in 1992, most, by our calculations, were increased by 5 percent. We found no documentation explaining the basis for these adjustments. In addition, we found that several courses were terminated, but we found no documentation explaining why.

At the Office of Washington Training and Development Services, an official said tuitions were adjusted for 1993 by applying an across-the-board percentage increase to all course prices. The official did not know how the original tuitions were determined.

Officials at the Government Affairs Institute also provided a sample worksheet that they said was typical of what was used to determine tuitions. The worksheet we saw presented direct costs as well as estimated indirect costs for one session of one single-agency course. However, we did not find any more of these worksheets at the two cost centers we visited. We understand from OPM officials that the worksheets were discarded after they were used. Thus, there was no record of how the tuitions were determined.

In February 1993, OPM convened a task force representing all of its training cost centers to develop a standard policy on pricing of training courses. The task force assembled and analyzed the pricing methods used by the training cost centers. In a June 18, 1993, memo, the task force concluded that although there were a number of instances in which pricing methods were documented, the system would benefit from improved documentation and fewer differences in pricing practices.

The resulting pricing policy stated that the task force had identified three preliminary major objectives:

- **Solvency**—Pricing policy should ensure that prices are set to recover all direct and indirect costs, including development costs.
- **Accountability**—Pricing should be done at a level where decisions can respond to local market conditions and meaningful resource determinations can be made, i.e., at the training cost center level.

- **Consistency—Pricing procedures should be general enough that they can be applied to a variety of different products; the approach should use the same measurements as much as possible.**

On March 28, 1994, the new tuition pricing policy was approved by OPM's Acting Chief Financial Officer.

Reasonableness of Tuitions

OPM financial reports show the direct costs of individual training courses and the total indirect costs for training cost centers. OPM officials said that each training cost center is to be assessed a share of the indirect costs on the basis of each center's direct costs from the preceding year. However, we could not confirm that indirect costs have been assessed in this manner. For instance, for fiscal year 1991, we found one cost center was assessed 16 percent of the indirect costs even though it accounted for 12 percent of reported direct costs for training in 1990. Another cost center was assessed 8.5 percent of the 1991 indirect costs although it accounted for about 13 percent of the 1990 direct costs.

According to the OPM Office of Inspector General (OIG), neither tuition development nor the allocation of indirect costs had been audited since the training activity became part of the revolving fund in 1969. In April 1991, the Inspector General for OPM explained to us in writing that OPM's accounting system for the revolving fund relied on numerous manual processes, which made it very difficult, if not impossible, to verify revolving fund costs. He said that because of the known, serious deficiencies of the accounting system, the anticipated implementation of a new system, and the implementation of the Chief Financial Officers Act of 1990, the OIG had dedicated resources to reviewing the acceptance and implementation of the new system rather than to in-depth audits of financial management activities. Subsequently, the OIG performed an audit of tuition development and allocation of indirect costs under the new system at one of OPM's training cost centers as part of an audit of interagency training activities.

According to the OIG, the audit disclosed that (1) individual training courses were not priced from a zero base, (2) the prices of individual courses for 1992 and prior years were adjusted for projected increases in operating costs, (3) documentation was not available to support the adjustments, and (4) training center officials agreed that some courses may have been priced too high or too low. The OIG also said that the indirect cost allocation process was based on a number of informal

discussion papers that were not systematically maintained. Cost center officials were unable to explain the rationale for the cost elements used in the allocation methodology because it was developed under a predecessor organization. The OIG also found that the allocation methodology excluded certain direct costs for rent without providing a rationale for this exclusion. This direct cost exclusion could account for some of the difference we found.

Profits of Some Courses Offset Losses of Others

We allocated the reported indirect costs of 1 judgmentally selected course grouping of 14 courses provided at 1 cost center over a 3-year period, fiscal years 1989 through 1991. For each year, we allocated indirect costs on the basis of each course's reported direct costs. We added these indirect costs to the reported direct costs for the same period, thereby developing an estimated total cost for each course. We then compared these costs to the corresponding course revenue. We found the course revenue as a percent of total costs varied widely among courses—ranging from 25 percent to 257 percent. Three of the courses did not earn enough revenue to offset total estimated costs.

Table 1: Course Revenue as a Percent of Total Costs at the Government Affairs Institute for Fiscal Years 1989-1991

Training courses	Revenue	Direct costs	Estimated indirect costs	Revenue as a percent of total costs
Congress and Health Issues	\$39,660	\$13,132	\$16,682	133.0%
Congress and Money	116,735	26,984	34,278	190.6
Congress and Natural Resource Issues	91,125	22,698	27,763	180.6
Congress and the Judiciary	9,900	9,371	10,716	49.3
Congressional Operations Seminar	691,573	117,470	152,160	256.5
Congress and Regulatory Agencies	35,200	24,201	27,565	68.0
Freedom of Information and Privacy	54,550	12,514	16,928	185.3
Hearings Process Workshop	35,125	64,500	78,280	24.6
The Military and Congress	108,825	27,624	35,901	171.3
Policy Presentation Skills	62,625	27,551	34,561	100.8
Presidential Operations Seminar	58,800	24,651	29,464	108.7
Preview of the New Congress	56,845	24,098	30,704	103.7
Seminar for Executives on Legislative Operations	142,650	28,142	34,474	227.8
Single-Agency Courses	1,939,051	795,727	1,040,926	105.6

Source: OPM financial management reports, fiscal years 1989-1991.

OPM officials acknowledged that the income of some courses offset the losses of other courses; they believed OPM should provide some necessary courses even though they may not recover their costs. Although 5 U.S.C. 1304(e)(1) states that, to the maximum extent feasible, the training activity shall be conducted generally on an actual cost basis over a reasonable period, the law does not require OPM to recover the actual costs of each course from that course's income.

Total Training Activity No Longer Making a Profit

As table 2 shows, the training activity generated net income in 7 of 11 years and had positive balances the entire 12-year period covering fiscal years 1978 through 1989. However, the training activity has recently ceased earning a profit; for fiscal years 1989 through 1992, OPM reported

annual losses for the training activity that resulted in a cumulative deficit of \$7.7 million at the end of fiscal year 1992.

Table 2: Training Activity End of Fiscal Year Balance, Fiscal Years 1978-1992

Dollars in millions	
Fiscal year	Balance
1978	\$0.9
1979	1.7
1980	3.8
1981	6.4
1982	5.5
1983	7.1
1984	3.5
1985	0.2
1986	0.5
1987	3.6
1988	5.1
1989	1.8
1990	(0.8)
1991	(7.5)
1992	(7.7)

Source: OPM Office of the Chief Financial Officer, Financial Management Division.

On April 1, 1994, OPM provided revised training activity balances for fiscal years 1990 through 1992 and the balance at the end of fiscal year 1993. These data showed cumulative deficits beginning in fiscal year 1991 and continuing through fiscal year 1993. Although the cumulative deficits for 1991 and 1992 were about 40 percent less each year than table 2 shows, the cumulative deficit for 1993 was about 25 percent greater than the \$7.7 million shown in table 2 for 1992. However, the data OPM provided were in draft and therefore subject to change. For that reason, we made no change to the amounts in table 2 and table I.1.

Conclusions

The training activity of OPM's revolving fund has run a deficit in recent years. OPM has recognized this problem and has developed a new policy for pricing training courses. The pricing policy has among its objectives assurance that prices would be set so that (1) the training activity would recover all direct and indirect costs, (2) pricing methods would be documented, and (3) the differences in pricing practices would be

reduced. If properly implemented, these corrective actions should resolve the problems we identified in our review. Consequently, we are making no recommendations.

Agency Comments and Our Analysis

In a January 13, 1994, letter (see app. II), the OPM Director said that all Government Affairs Institute courses have been calculated, at least since 1990, on the basis of actual costs, and all worksheets supporting these pricing decisions are maintained routinely by the Government Affairs Institute. We could find no evidence to support these statements concerning the Government Affairs Institute. As we said on page 4, for the interagency courses we reviewed at this training center, we found that tuitions went unchanged for 1990 and 1991. We also found that where tuitions were changed in 1992, most, by our calculations, were increased by 5 percent, and we found no documentation explaining the basis for the adjustments. We also were unable to verify the basis for the pricing of single-agency courses because we found no supporting worksheets; OPM officials said the worksheets were discarded. In any event, as we stated earlier, we believe OPM's new pricing policy, if properly implemented, should resolve the problems we identified.

As agreed with the Subcommittee, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days from the date of this letter. At that time we will send copies of this report to the Director, OPM, and to other interested parties.

Steve Wozny, Assistant Director, and Michael Horton, Evaluator-in-Charge, developed the information for this report. If you have any questions, please call me on (202) 512-5074.

Sincerely yours,



Nancy Kingsbury
Director
Federal Human Resource Management
Issues

OPM Financial Reports for Major Revolving Fund Activities, Fiscal Years 1988-1992

Dollars in millions					
Activity	Fiscal year				
	1988	1989	1990	1991	1992
Training					
Retained earnings (beginning of fiscal year)	\$3.5	\$5.1	\$1.8	(\$0.8)	(\$7.5)
Revenue	92.0	90.4	87.0	85.7	100.0
Expenses	90.3	93.7	89.5	92.4	100.2
Net income or loss	1.6	(3.3)	(2.5)	(6.7)	(0.2)
Accumulated year-end surplus or loss	5.1	1.8	(0.8)	(7.5)	(7.7)
Background investigations					
Retained earnings (beginning of fiscal year)	(9.3)	(12.0)	(11.2)	(5.9)	4.2
Revenue	49.8	63.5	88.5	104.3	89.9
Expenses	52.5	62.6	83.2	94.3	100.0
Net income or loss	(2.7)	0.9	5.3	10.0	(10.1)
Accumulated year-end surplus or loss	(12.0)	(11.2)	(5.9)	4.2	(6.0)

Note: Columns may not add due to rounding.

Source: Unaudited OPM financial management reports (A650), fiscal years 1988 through 1992.

Comments From the Office of Personnel Management



OFFICE OF THE DIRECTOR

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT

WASHINGTON, D.C. 20415

JAN 13 1994

Ms. Nancy Kingsbury
Director
Federal Human Resource Management Issues
U.S. General Accounting Office
Washington, DC 20548

Dear Ms. Kingsbury:

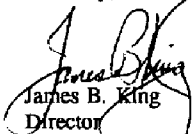
In response to your letter of November 23, the following are our comments on the draft GAO report titled "OPM Revolving Fund: New Tuition Pricing Policy Under Study By OPM".

The draft report acknowledges that OPM has recognized certain inconsistencies in its systemwide pricing practices for the training revolving fund and, as a result, has developed a new pricing policy in order to address the shortcomings identified in the report. As a consequence of OPM's action, GAO is making no recommendations in the report.

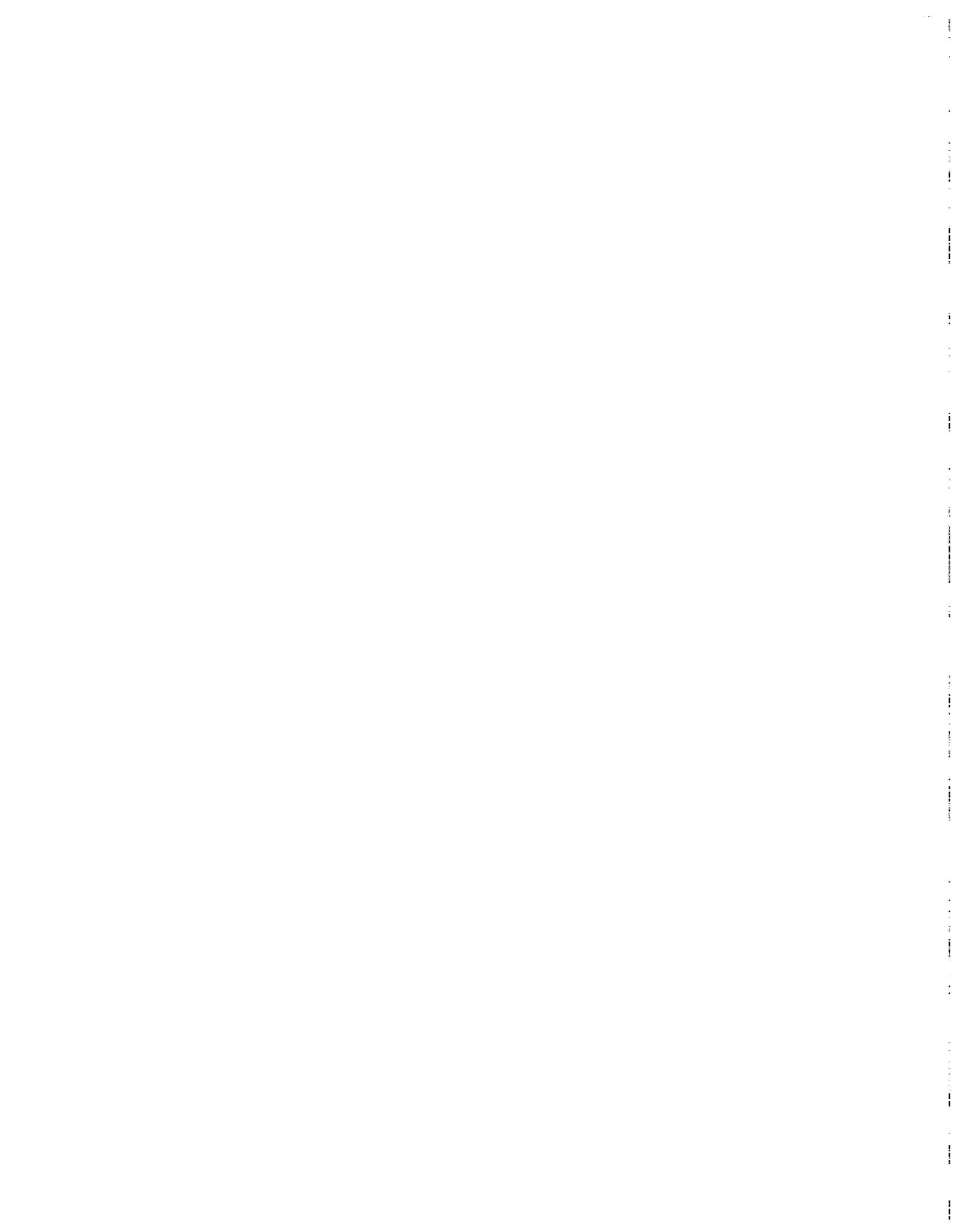
The draft does cite certain deficiencies with respect to tuition pricing and supporting documentation maintained in the Government Affairs Institute (GAI), the training unit reviewed during the audit. It should be noted that all GAI course prices have been calculated, at least since 1990, strictly on the basis of actual costs. In addition, all worksheets supporting these pricing decisions are maintained routinely by the Institute and were made available during the audit. Our new systemwide pricing policy cited above now requires that all OPM training delivery units adhere to these same standards and procedures.

We appreciate the opportunity to comment on the draft report. Please feel free to contact us if you require any additional information.

Sincerely,


James B. King
Director

CON 131-64
JAN 1994



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