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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548



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FEB 20 1973

Dear Mr. Chairman:

Public Law 91-189 authorized expanded use of a revolving fund available to the United States Civil Service Commission. It requires the Comptroller General to report to the Senate and House Committees on Post Office and Civil Service at least once every 3 years on the activities financed through the revolving fund. A similar report is being sent today to the Chairman, House Post Office and Civil Service Committee. On October 13, 1972, we discussed our audit plans with your Committee and told them that we are reviewing the Commission's training and investigative activities, which are the principal activities financed by the fund. We will make these reports on our reviews available to your Committee when they are completed. We believe the following information concerning the activities of the revolving fund will interest you. Financial data appearing on pages 4, 5, and 7 have been taken from the Civil Service Commission's records without audit by us.

BACKGROUND

Initially, a revolving fund for Commission use was established under the Third Supplemental Appropriation Act of 1952 (approved June 5, 1952, 66 Stat. 107, ch. 369). This act authorized working capital of \$4 million to finance investigation activities authorized by Public Law 298, 82d Congress, approved April 5, 1952. Public Law 91-189 authorized the revolving fund to finance not only investigations but also training and such other functions as the Commission is authorized or required to perform on a reimbursable basis. This authorization is restricted to those functions in any fiscal year which are covered by budget estimates submitted to the Congress for that fiscal year. An additional \$1 million in working capital was authorized by Public Law 92-49 to finance the expansion of revolving fund activities.

Public Law 91-189 provides that advances and reimbursements to the fund shall be at rates the Commission estimates as adequate to recover operating expenses. It further provides that any unobligated and unexpended balances in the fund which the Commission determines to exceed amounts needed for activities by the fund shall be deposited with the Treasury of the United States as miscellaneous receipts.

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ACTIVITIES FINANCED BY THE FUND

After the revolving fund was made available, the Commission experimented with the use of the fund to accumulate costs on all reimbursable activities. During fiscal years 1970 and 1971 the fund was used for a number of activities that the Commission performs on a reimbursable basis. Most of these involved employees whose time was spent mainly on activities chargeable to the Commission's regular salary and expense appropriation. Only a small part of their time was reimbursable. These reimbursable activities included such things as equal employment opportunity appeals for Federal agencies; Commission employees detailed to other agencies, including State and local agencies; and work performed for the Social Security Administration on medicare cases involving civil service annuitants. In 1972 the Commission decided that it was more practicable to finance these activities through its regular appropriation and reimburse that appropriation, as they had done in the past. Training, investigations, and the St. Louis Health Center are the only activities the fund now finances.

During fiscal year 1972 the fund financed about 19,600 full field personnel security investigations by the Commission for departments and agencies, at an average cost of \$648 per case. Over the last several years, billings to agencies for the investigations activity have not recovered costs. A large deficit balance has accumulated in the fund. The cost of an individual investigation to agencies was \$525 during the first 6 months of fiscal year 1971. This rate was raised to \$575 on January 1, 1971, to \$600 on July 1, 1971, and to \$650 on January 1, 1972. We were informed that these rates were increased primarily to cover additional costs due to pay raises.

The reimbursable training activity financed through the fund during fiscal year 1972 included (1) residential training for about 2,000 Federal mid-level executives conducted by the Commission in three Executive Seminar Centers at Kings Point, New York; Berkeley, California; and Oak Ridge, Tennessee, (2) residential training for about 250 Federal career executives attending 8-week courses and about 600 short-term followup courses held at the Commission-operated Federal Executive Institute at Charlottesville, Virginia, and (3) non-residential short-term training courses conducted in the Commission's central office and in its 10 regional offices. The income from training has consistently exceeded its cost.

The St. Louis Health Center, financed by the Commission through the fund, provides occupational health services on a reimbursable basis for employees of several Federal agencies in the St. Louis Federal office building. In 1961, when the Federal office building was completed, space was provided for a health clinic. Public Law 658, 79th Congress, as amended (5 U.S.C. 7901), which was passed in 1946, authorized Federal agencies to establish health service programs for its employees. The Public Health Service (PHS) had operated such programs in the past but could not do so in this case. A number of agencies in the St. Louis Federal office building agreed to finance a health program for its employees using the newly established health clinic. As of April 30, 1972, 17 agencies and about 1,400 employees were involved. The facility provides essentially the same services that PHS would normally supply. The Civil Service Commission agreed not only to participate but also to administer the program on a reimbursable basis. Late in fiscal year 1970, the Commission transferred this activity to the revolving fund. This is the only cooperative health program the Commission administers; however, the Commission participates in similar programs administered by other departments and agencies.

FINANCIAL STATUS

The financial condition of the revolving fund as of June 30, 1972, as shown by a statement prepared by the Commission, was as follows:

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	Amount (000 omitted)
Assets:	
Cash and fund balances	\$2,051
Advances to contractors and agents	155
Accounts receivable	3,610
Work-in-process	1,214
Machinery and equipment	\$1,245
Less accumulated depreciation	<u>630</u>
	<u>615</u>
Total assets	<u>\$7,645</u>
Liabilities:	
Accrued liabilities	\$1,512
Accrued annual leave	<u>1,275</u>
Total liabilities	<u>2,787</u>
Net investment:	
Funds appropriated by the Congress for capital of the fund from inception in 1952 to June 30, 1972	5,000
Net assets transferred to the fund in accordance with Public Law 91-189, approved December 30, 1969	101
Deficit:	
As of June 30, 1971	\$ -105
Net loss for the fiscal year ended June 30, 1972	-138
	<u>-243</u>
Total investment of the U.S. Government in the fund at June 30, 1972, less operating losses	<u>4,858</u>
Total liabilities and investment	<u>\$7,645</u>

The profit or loss by activity, as reported by the Commission, from just prior to enactment of Public Law 91-189 in December 1969 to June 30, 1972, is shown below.

	<u>Total</u>	<u>Investi- gations</u>	<u>Training</u>	<u>Other</u>
Balance as of June 30, 1969	\$ -3,000	\$ -3,000	\$ -	\$ -
Profit or loss(-), fiscal year 1970	-99,000	-206,000	83,000	24,000
Balance as of June 30, 1970	-102,000	-209,000	83,000	24,000
Profit or loss(-), fiscal year 1971	-3,000	-275,000	222,000	50,000
Balance as of June 30, 1971	-105,000	-484,000	305,000	74,000
Profit or loss(-), fiscal year 1972	-138,000	-484,000	388,000	-42,000
Balance as of June 30, 1972	-243,000	-968,000	693,000	32,000

Public Law 91-189 provides that "to the maximum extent feasible, each individual activity shall be conducted generally on an actual cost basis over a reasonable period of time."

The Commission reports that investigations losses have been caused principally by agencies consistently overestimating the number of investigations needed and by keeping a staff of investigators for a workload that has not always materialized. The number of investigators has been reduced from 637 at the end of fiscal year 1969 to 537 at the end of fiscal year 1971 and to 426 at the end of fiscal year 1972. Commission records show that the case workload has also been sharply reduced during the same period and has always been less than agency estimates. According to the Commission, the caseload has stabilized during fiscal year 1973 and, coupled with the sharp drop in investigators during fiscal year 1972, has resulted in reversing the deficit trend. The latest financial statements (November 25, 1972) prepared by the Commission show that the investigations activity has generated, during the first 5 months of fiscal year 1973, an excess of revenue over costs of about \$471,000 and the accumulated deficit of \$968,000 has been reduced to about \$497,000. Should this trend continue, the Commission believes that the entire deficit could be made up this year.

Concerning the surplus in training, the Commission has published a policy that charges for training services will be established at a level sufficient to generate revenue exceeding actual costs, both direct and indirect, by an amount not exceeding 5 percent, to cover such contingencies as cancellations and other unforeseen losses. This policy has generated some revenue in excess of cost (see p. 7), and the Commission is currently reviewing this situation in order to make any needed changes in its charges for training.

In fiscal year 1972, when the Commission converted back to financing other miscellaneous reimbursable activities in its regular appropriation accounts, a number of adjustments were made to the revolving fund that applied to prior-year transactions involving activities other than the St. Louis Health Center. The net effect of these adjustments was a loss of \$43,000 recorded in the revolving fund. The largest single adjustment to the revolving fund during fiscal year 1972 involved an overstatement of income during fiscal year 1971 relating to the intergovernmental personnel program, caused by recording a receivable for income that had already been received.

The Commission employs a centralized automated accounting system, and costs for the various reimbursable activities are accumulated through a work reporting and cost analysis system. Major cost elements reported as expenses and recovered through reimbursements include salaries, travel, rent, printing and reproduction, depreciation, changes in accumulated annual leave, retirement contributions, etc. The Commission has not made a complete audit of the fund in recent years, although they have worked on some aspects of it, such as billing and collection procedures. We were advised that the Commission had recently developed an overall audit plan to include a review of the revolving fund at least every 3 years.

A summary of fiscal year 1972 revenue and expenses, by activity, financed through the revolving fund is shown below.

	<u>Revenue</u>	<u>Expenses</u>	<u>Revenue over or under(-) expenses</u>
Investigations	\$12,209,000	\$12,693,000	-\$484,000
Training	10,169,000	9,781,000	388,000
St. Louis Health Center	25,000	24,000	1,000
Adjustments for prior- year transactions	<u>-22,000</u>	<u>21,000</u>	<u>-43,000</u>
	<u>\$22,381,000</u>	<u>\$22,519,000</u>	<u>-\$138,000</u>

OBSERVATIONS

As previously noted, Public Law 91-189 suggests that each of the activities financed by the fund should generally be conducted at a breakeven point over a reasonable time. The history of the fund shows consistent losses for investigative activities and consistent gains for training activities. Agencies are paying too much for training and not enough for investigations.

The Commission appears to have taken steps that it expects will reduce or eliminate the deficit in investigations over a period of time. The Commission is also considering changes that might be needed in charges for training services to agencies in order to bring income more nearly in line with expenses.

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We are reviewing the Commission's investigative and training functions. In our assessment of the efficiency and effectiveness of these activities, we will examine in more detail the above actions being taken by the Commission. These reviews will provide the basis for a substantive evaluation

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of the Commission's policies and practices in administering the activities financed from the revolving fund. We will make these reports available to you when they are completed.

Sincerely yours,

A handwritten signature in cursive script, reading "James B. Stewart".

Comptroller General
of the United States

The Honorable Gale W. McGee
Chairman, Committee on Post Office
and Civil Service
United States Senate