



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

Accounting and Information
Management Division

B-270316

September 30, 1996

Congressional Requesters

In accordance with your requests and based on discussions with your offices, this letter provides information on allegations of fiscal mismanagement by the Division of Federal Occupation Health (DFOH) within the Health Resources and Services Administration (HRSA) of the Department of Health and Human Services (HHS). A group of former and current DFOH employees have alleged 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.¹ Our primary objective was to address the merit of these allegations. Also, for the same time period, we assessed whether DFOH could ensure compliance with the Economy Act on an individual interagency agreement basis as required by the act.

To accomplish our objectives, we (1) reviewed appropriate agency records, including financial and budget reports, and interagency agreements, (2) reviewed relevant laws and regulations including the Economy Act and Comptroller General decisions on augmentation, and (3) interviewed agency personnel and the individuals making the allegations. While we did consider the consistency of documentary and oral information provided, we did not independently verify this information. We conducted this evaluation primarily from January 1996 through early September 1996 in accordance with generally accepted

¹The individuals making these allegations described this issue as a potential violation of the Antideficiency Act; however, this situation is more properly characterized as an allegation of appropriation augmentation.

government auditing standards. We provided a draft of this letter to DFOH and HRSA for comment. They concurred with our overall findings and provided comments that are incorporated in this letter as appropriate.

We found 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 for each agency. 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.

BACKGROUND

DFOH is a division of the Bureau of Primary Health Care (BPHC) within HRSA, an operating division of the Department of Health and Human Services. DFOH, through interagency agreements under the Economy Act, provides on-the-job occupational health services, environmental health surveillance, employee counseling, and wellness/fitness programs to other federal agencies.

The Economy Act authorizes an agency to enter into agreements with other agencies for goods or services and requires that each ordering agency reimburse the performing agency for the actual cost of services provided.² Under the Economy Act, actual cost includes all costs attributable to providing the services. The actual cost is comprised of both direct costs, such as medical supplies and nursing salaries, and indirect costs, including allocations of overhead costs, such as rent, as long as there is a significant relationship between the costs and the services provided under the interagency agreement.

An agency may not augment (increase) its appropriation from outside sources without specific statutory authority.³ The objective of this prohibition is to prevent a government agency from operating beyond the level of activity that the Congress has authorized.

²31 U.S.C. Section 1535.

³Principles of Federal Appropriation Law, Second Edition, Volume II, page 6-103 (GAO/OGC-92-13, December 1992).

DFOH RENT ALLOCATIONS WERE ALLOWABLE

During fiscal years 1992 and 1993, DFOH did not violate the Economy Act by including regional office rent in the costs to be reimbursed under interagency agreements. DFOH employees in regional offices were responsible for carrying out program administration, for example, ensuring that health services are provided to ordering agencies in accordance with the interagency agreements. The Economy Act requires DFOH to charge ordering agencies for indirect costs, such as regional office rent, when these costs bear a significant relationship to the goods and services provided.

Because these employees shared HHS regional office space with HRSA staff, HRSA and DFOH adopted a method for allocating DFOH's share of office rent for cost recovery purposes. DFOH's allocated share of the rent was based on the number of DFOH employees relative to other HHS employees who occupied the space. Based on the nature of the employees' work and the cost allocation method, DFOH was able to show a significant relationship between the services provided and the rent allocations. Consequently, these rental cost allocations were properly included by DFOH for reimbursement under Economy Act interagency agreements.

RENT ALLOCATIONS DID NOT AUGMENT
HRSA'S APPROPRIATION

HRSA did not augment its appropriation by allocating regional office rental costs to DFOH. As discussed above, these rent allocations were based on the number of DFOH employees relative to other HHS employees who occupied the space. Therefore, the rent allocation is a cost to DFOH and not HRSA. Accordingly, these rent allocations did not result in an augmentation of HRSA's appropriation.

These regional office rent allocations could have resulted in an augmentation of HRSA's appropriation if HRSA had charged DFOH rent for regional office space not used by DFOH employees and DFOH had included these improper charges in the actual costs reimbursed by other federal agencies through interagency agreements under the Economy Act. In effect, if these conditions had occurred, then the HRSA appropriation available for rental costs would have been improperly augmented by the reimbursements from other federal agencies. As discussed, the rent allocations from HRSA to DFOH for fiscal years 1992 and 1993 were for space

occupied by DFOH employees and, therefore, were eligible to be included in actual costs for reimbursement under the Economy Act.

DFOH CANNOT ENSURE COMPLIANCE
WITH THE ECONOMY ACT

Although HRSA's methodology allocated rent to DFOH properly, and DFOH complied with the Economy Act in including its rent in the costs agencies must reimburse, DFOH could not ensure compliance with the Economy Act on an individual interagency agreement basis. DFOH's compliance with the Economy Act on an individual interagency agreement basis during fiscal years 1992 and 1993 cannot be determined because DFOH financial systems were unable to track the actual costs of providing goods and services to a particular agency under its interagency agreement. Accordingly, DFOH cannot determine, on an individual agreement basis, whether reimbursements received from an agency equaled the actual costs incurred for services provided to that agency for each of those fiscal years.

Although actual costs could not be tracked by DFOH on an individual agreement basis, certain cost monitoring was performed. Budgets were established and used to track actual costs on a regional basis. Budgets for operating each health unit were used to monitor the level of services provided, although actual costs were not tracked at the unit level. These budgets were also used to estimate costs when negotiating agreements. If more than one agency used a health center, estimated costs to be reimbursed were allocated to each agency based on expected usage.

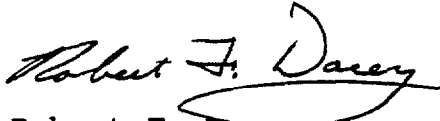
During our review, we noted that DFOH management was taking steps to track actual costs. In commenting on a draft of this letter, DFOH management stated that by the end of fiscal year 1996, they began to track actual costs manually. Also, DFOH procured an off-the-shelf cost accounting system to automate this process. Management expects the system to be operational for fiscal year 1997. Proper implementation of an adequately designed cost accounting system should enable management to fully meet the Economy Act's requirements. In commenting on this report, DFOH officials stated that they believe the manual cost tracking process for fiscal year 1996 and the planned automated system for fiscal year 1997 should adequately address our concerns.

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We are sending copies of this letter to the Administrator of the Health Resources and Services Administration and the Director of the Division of Federal Occupational Health. We will send copies to other interested committees and other interested parties. Copies will be made available to others on request.

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 dark ink and is positioned above the typed name.

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

B-270316

LIST OF CONGRESSIONAL REQUESTERS

The Honorable Christopher J. Dodd
The Honorable Ben Nighthorse Campbell
The Honorable Paul S. Sarbanes
The Honorable Hank Brown
The Honorable Barbara A. Mikulski
United States Senate

The Honorable Dan Schaefer
The Honorable Sam Gejdenson
House of Representatives

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