United States Government Accountability Office

Report to the Chairman, Committee on the Budget, House of Representatives

May 2016

REVOLVING FUNDS

Additional Pricing and Performance Information for FAA and Treasury Funds Could Enhance Agency Decisions on Shared Services

GAO-16-477

GAO Highlights

Highlights of GAO-16-477, a report to the Chairman, Committee on the Budget, House of Representatives

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Why GAO Did This Study

Moving to shared services, where services that multiple agencies need are consolidated within a smaller number of agencies, can save the federal government billions of dollars as well as reduce duplicative efforts, decrease systems upgrades, and free up resources for mission-critical activities. Shared services may be financed through intragovernmental revolving funds. GAO was asked to evaluate the management of select revolving funds. This report assesses (1) how two agencies manage select funds that finance shared services; and (2) how these agencies manage unexpended balances in select funds. GAO selected two funds for this review—the FAA ASFF and Treasury TFF—based on their roles as federal shared service providers and use of unexpended balances. Using GAO's work on management of revolving funds and unexpended balances as criteria, GAO analyzed agency documentation on managing the funds and budget and financial data, and interviewed FAA and Treasury officials as well as select customer agencies of the funds.

What GAO Recommends

To help support efforts to expand shared services and improve the management of the funds, GAO is making three recommendations to Treasury and FAA to enhance the availability of pricing and performance information, as well as documentation of operating reserve policies of the selected funds. Treasury and FAA concurred with all of GAO's recommendations.

View GAO-16-477. For more information, contact Heather Krause, 202-512-6806, and KrauseH@gao.gov

What GAO Found

The Federal Aviation Administration (FAA) and the Department of the Treasury (Treasury) have policies and procedures for effectively managing the Administrative Services Franchise Fund (ASFF) and the Treasury Franchise Fund (TFF)—the two revolving funds that GAO reviewed.

FAA and Treasury Management of the Selected Funds

Clear roles and responsibilities	The roles and responsibilities for managing and overseeing the funds are clearly documented in FAA and Treasury policies and are segregated across a number of entities, which can help minimize the risk of error in fund management.
Processes for customer input	FAA and Treasury obtain input and address needs of customers through various mechanisms—such as annual forums and informal site visits—to help prioritize customer demands and use resources efficiently.
Cost recovery of the funds, including clear pricing information	The funds operate on a self-sufficient basis, recovering all operation expenses over the last six years. FAA and Treasury share the funds' pricing information with customers in various ways, such as through price sheets with costs for services.
Measure performance	FAA and Treasury have strategic goals with supporting metrics for the funds to help measure performance and whether fund activities support overall goals. However, the TFF's performance metrics do not encompass the majority of services for one of its lines of business. Treasury officials stated they plan to revise this line of business' metrics to include all services by fiscal year 2018.

Source: GAO. | GAO-16-477

FAA and Treasury share pricing and performance information with the respective funds' customers. However, they do not make this information available to potential customers for most of the funds' lines of business because component agencies within the agencies purchase most of the services and the customized nature of the services. On the other hand, agency officials recognized the increasing external demand for some lines of business, such as Treasury's information technology services given cyberattacks on agencies. As more agencies consider transitioning to shared service providers, making pricing and performance information publicly available can help them determine the most efficient method for obtaining services.

FAA and Treasury have processes for effectively managing unexpended balances in the funds, including for identifying factors that affect balances, estimating future needs of the funds, and managing the funds' operating reserves. FAA and Treasury have documentation that provides some guidance for effectively managing the funds' reserves and believe this documentation to be sufficient. However, these documents do not include key processes they follow for managing the reserves, such as how FAA calculates the reserve for the next year. Given the centrality of the reserve to the effective management of the funds, written documentation of these processes is essential to ensure consistency in implementation over time and through transitions in leadership.

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Abbreviations

ARC	Administrative Resource Center
ARC Admin	Administrative Resource Center Administrative Services
ARC IT	Administrative Resource Center Information Technology Services
ASFF	Administrative Services Franchise Fund
CAP	Cross-Agency Priority
DOT	Department of Transportation
ESC	Enterprise Services Center
FAA	Federal Aviation Administration
FSSP	federal shared service provider
HUD	Department of Housing and Urban Development
IRF	intragovernmental revolving fund
OMB	Office of Management and Budget
SSP	Shared Services Programs
TFF	Treasury Franchise Fund
Treasury	Department of the Treasury

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
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May 10, 2016

The Honorable Tom Price
Chairman
Committee on the Budget
House of Representatives

Dear Mr. Chairman:

Moving to shared services, where services that multiple agencies need are consolidated within a smaller number of agencies, can save the federal government billions of dollars as well as reduce duplicative efforts, decrease systems upgrades, and free up resources for mission-critical activities. For example, in 2015, the Partnership for Public Service reported that the estimated cost savings from moving the federal government to shared services could range from about $25 billion to $56 billion over the next 10 years.[1] The President's fiscal year 2015 budget made strategically expanding shared services to improve performance and efficiency across the federal government a Cross-Agency Priority (CAP) goal of the administration to be achieved over a 4-year time frame.[2] Shared services may be financed or supported through intragovernmental revolving funds (IRF), which include working capital funds and franchise funds.[3] IRFs finance business-like activities within and between federal agencies through amounts received by the fund.

[1]The Partnership for Public Service, *Building a Shared Service Marketplace: Recommendations from the Shared Services Roundtable* (Washington, D.C.: March 2015).

[2]CAP goals are long-term, outcome-oriented federal priority goals that OMB in coordination with federal agencies develops every 4 years for a limited number of crosscutting policy and management improvement areas. For our work on CAP goals, see GAO, *Managing for Results: Implementation of GPRA Modernization Act Has Yielded Mixed Progress in Addressing Pressing Governance Challenges*, GAO-15-819 (Washington, D.C.: Sept. 30, 2015).

[3]Working capital funds are a form of IRF that generally finance the centralized provision of common services within an agency. Franchise funds are a type of IRF designed to compete with similar funds of other agencies to provide common administrative services, such as accounting, financial management, and human resources management.

You asked us to assess the management of select IRFs, including the unexpended balances in the funds. This report assesses: (1) how two federal agencies manage select IRFs that finance shared services; and (2) how these agencies manage unexpended balances in select IRFs.[4]

To assess the management of select IRFs, including unexpended balances, we selected the Federal Aviation Administration's (FAA) Administrative Services Franchise Fund (ASFF) and the Department of the Treasury's (Treasury) Treasury Franchise Fund (TFF), as case studies using the following criteria:

- IRFs that support a financial management federal shared service provider that contributes to the administration's shared services CAP goal; and
- the highest average ratio of the funds' unexpended balance to the total budgetary resources available (unexpended balance ratio).

While recognizing that an unexpended balance is necessary in IRFs since interagency agreements can cross fiscal years, our prior work has found that a high unexpended balance in working capital funds (a type of IRF) may indicate poor workload planning. This could lead to the inefficient use of agency resources and missed opportunities to use those funds for other needs.[5] Because we used the average unexpended balance ratio as an indicator for potential management issues at IRFs, we focused on the IRFs with the highest unexpended balance ratios. Of the five IRFs that support the financial management federal shared service providers (FSSP) designated by the Office of Management and Budget (OMB) to contribute to the shared services CAP goal, the ASFF and the TFF had the highest average unexpended balance ratio from fiscal years 2010 through 2014. Appendix I provides more information about our methodology for selecting the ASFF and the TFF.

[4]An unexpended balance in an IRF consists of two parts: obligated balances and unobligated balances. Obligated balances are the amounts in an IRF for which funds have been obligated against an order placed with the IRF, but have not been fully liquidated. Unobligated balances are the amounts in an IRF that are either earned and legally available for obligation, or unearned advances that have not been obligated by the agency to fulfill the order.

[5]See, for example, GAO, *Navy Working Capital Fund: Management Action Needed to Improve Reliability of the Naval Air Warfare Center's Reported Carryover Amounts*, GAO-07-643 (Washington, D.C.: Jun. 26, 2007).

We assessed the management of the ASFF and the TFF against our framework for effective IRF management, which is described in the text box below.[6] We shared these operating principles with FAA and Treasury prior to our review.

Intragovernmental Revolving Funds Key Operating Principles

In 2011, we identified four key operating principles that offer a framework to effectively manage intragovernmental revolving funds (IRF). IRFs provide agencies with an opportunity to operate more efficiently by consolidating services and creating incentives for customers and managers to exercise cost control and economic restraint. Given the fiscal pressures facing the federal government, consolidating operations could potentially achieve cost savings and help agencies provide more efficient and effective services. Agencies can maximize the potential of these opportunities by following four key IRF operating principles.

- **Clearly delineate roles and responsibilities**: Appropriate delineation of roles and responsibilities promotes a clear understanding of who will be held accountable for specific tasks or duties such as authorizing and reviewing transactions, implementing controls over fund management, and helping ensure that related responsibilities are coordinated.
- **Build in flexibility to obtain customer input and meet customer needs**: Opportunities for customers to provide input about fund services, or voice concerns about needs, in a timely manner enable agencies to regularly assess whether customer needs are being met or have changed. This also enables agencies to prioritize customer demands and use resources most effectively, enabling them to adjust capacity to correspond to changes in the level of services demanded.
- **Ensure self-sufficiency by recovering the agency's actual costs**: Transparent and equitable pricing methodologies allow agencies to ensure that rates charged recover agencies' actual costs and reflect customers' service usage. If customers understand how rates are determined or changed including the assumptions used, customers can better anticipate potential changes to those assumptions, identify their effect on costs, and incorporate that information into budget plans.
- **Measure performance**: Performance measures that are aligned with strategic goals can be used to evaluate whether, and if so how, fund activities are contributing to the achievement of goals. A management review process comparing expected to actual performance allows agencies to review progress towards goals and potentially identify ways to improve performance.

Source: GAO-12-56. | GAO-16-477

Note: In addition to recovering their expense of operations, franchise funds can recover an amount for a reasonable operating reserve and up to 4 percent of annual operating income as a reserve for capital improvements.

To assess the management of each fund against these key operating principles, we reviewed the authorizing legislation and statutory authorities, charters and organizational charts, and budget documents and financial statements from fiscal years 2010 through 2015. We also analyzed the funds' interagency agreements with customers, as well as

[6] GAO, *Intragovernmental Revolving Funds: Commerce Departmental and Census Working Capital Funds Should Better Reflect Key Operating Principles*, GAO-12-56 (Washington, D.C.: Nov. 18, 2011).

various pricing documents to understand how both funds share pricing information with customers and make pricing information publicly available. In addition, we reviewed various documents related to the funds' performance, including performance metrics, performance and accountability reports, and customer satisfaction surveys. We used our work on customer service metrics and performance information to make judgments on the agencies' management of the funds.[7] We also met with FAA and Treasury budget and finance officials to learn about their roles and responsibilities for managing the ASFF and the TFF. As part of assessing customer input and needs, we interviewed a sample of ASFF and TFF customers to obtain their perspectives on services they received, billing and payment methods, and communication with the funds' managers. See appendix I for more information about our methodology for selecting customers.

To assess how federal agencies manage unexpended balances in select IRFs, for both the ASFF and the TFF, we used our key questions for assessing balances in federal budget accounts, which are described in the text box below, as criteria.[8] We shared these key questions with FAA and Treasury prior to our review.

Evaluating Unexpended Balances: A Framework for Understanding

In 2013, we identified the following questions for agencies and decision makers to consider when evaluating unexpended balances in federal budget accounts. Findings based on these questions can provide managers with important information about financial challenges and opportunities which may exist; in turn, this information may help guide more effective account and program management.

- What mission and goals is the account or program supporting?
- What are the sources and fiscal characteristics of the funding?
- What factors affect the size or composition of the unexpended balances?
- How does the agency estimate and manage unexpended balances?

Source: GAO-13-798. | GAO-16-477

[7]GAO, *Managing for Results: Selected Agencies Need to Take Additional Efforts to Improve Customer Service*, GAO-15-84 (Washington, D.C.: Oct. 24, 2014).

[8]GAO, *Budget Issues: Key Questions to Consider When Evaluating Balances in Federal Accounts*, GAO-13-798 (Washington, D.C.: Sept. 30, 2013).

To assess the management of unexpended balances in FAA's ASFF and Treasury's TFF against these key questions, we analyzed budget documents from fiscal years 2010 through 2015 to identify trends and patterns in the unexpended balances. We found the budget data to be sufficiently reliable for the purpose of analyzing the composition of the unexpended balances in the funds.[9] Also, because the funds' unexpended balances include several components, such as reserves, we asked FAA and Treasury officials to provide disaggregated amounts for the respective fund's unexpended balances. In addition, we also reviewed FAA and Treasury policies for managing reserves in the ASFF and the TFF. We interviewed FAA and Treasury budget and finance officials to learn about how they manage unexpended balances in the selected IRFs.

We conducted this performance audit from April 2015 to May 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Appendix I contains additional details on our objectives, scope, and methodology.

Background

Congress Authorized FAA and Treasury Franchise Funds to Finance the Provision of Shared Services

In 1994, Congress authorized the creation of one type of IRF as a pilot—franchise funds. These funds foster competition among agencies in the area of providing common support services on a fee-for-service basis to increase efficiency at reduced cost.[10] IRFs do not generally receive an annual appropriation from Congress. Rather, they are accounts that may receive reimbursements and advances from other federal accounts. In addition, IRFs may accept fees collected from nonfederal sources for the

[9] To assess the reliability of FAA and Treasury data showing unexpended balances in the ASFF and the TFF respectively, we compared the data in OMB MAX to amounts published in the President's budget. We also held discussions with FAA and Treasury officials to determine how they calculate the amount of the unexpended balances in the ASFF and the TFF, respectively.

[10] The Federal Financial Reform Act of 1994 authorized OMB to designate six franchise fund pilots. Pub. L. 103-356, title IV, § 403, 103 Stat. 3414 (Oct. 13, 1994).

sale of government products or services. A key feature of franchise funds is the ability to retain up to 4 percent of annual operating income as a reserve for capital improvements.

In 1996, FAA's ASFF was established to provide goods and services to customer agencies on a fee-for-service basis.[11] In fiscal year 2015, the ASFF collected $441 million to finance six lines of business that provide a range of services to customers.[12] In fiscal year 2015, 40 percent of the ASFF customers were internal to the Department of Transportation (DOT), comprising about 77 percent of the customer payments. Figure 1 provides an overview of the ASFF's structure, services provided to customers, and examples of customer agencies.

[11]Department of Transportation and Related Agencies Appropriations Act, 1997, Pub. L. 104-205, 110 Stat. 2958 (Sept. 30, 1996).

[12]For the purpose of this report, we define a line of business as an organization financed by an agency's IRF that provides services to customers inside of the agency, outside of the agency, or both. These include, for example, the ASFF's Aircraft Maintenance and Engineering Group line of business and the TFF's Shared Services Programs line of business. We consider a franchise fund to include all lines of business financed by the fund.

Figure 1: Overview of Federal Aviation Administration's (FAA) Administrative Services Franchise Fund Structure and Lines of Business

Oversight	Line of business	Service categories	Examples of customer agencies
• **FAA Corporate Services Office** • **Franchise Fund Management Council**	**Enterprise Services Center**	• Financial Management • Information Systems Security • National Wireless Program • Application • Data Center • Multimedia Support • Service Desk	• Department of Energy, • Securities and Exchange Commission, and • Office of Personnel Management
	Aircraft Maintenance and Engineering Group	• Specialized Avionics Aircraft Maintenance and Upgrades	• Federal Aviation Administration, • United States Marshall Service, and • Department of Defense
	FAA Logistics Center	• Supply Chain Management Services • Product Services • Parts Distribution Services • Navigation and Landing Products • Radar Products	• United States Customs and Border Protection, • Department of Defense, and • United States Coast Guard
	Acquisition and Contracting Services	• Acquisition Support (acquires and administers supplies, equipment, services and support services by contract)	• Federal Aviation Administration, and • Department of Transportation–Transportation Safety Institute
	FAA Leadership and Learning Institute	• Leadership Training	• Federal Aviation Administration
	International Training Division	• International Aviation Community Training (administers, develops, and conducts training to meet FAA and non-FAA airport requirements)	• Department of Energy, • Department of Defense, and • National Geospatial–Intelligence Agency

Source: GAO. | GAO-16-477

In 1994, Treasury's TFF was established to provide customer agencies with administrative and information technology support services on a fully cost recoverable, fee-for-service basis.[13] In fiscal year 2015, the TFF collected about $542 million to finance three lines of business that provide a range of services to customers. In fiscal year 2015, about 30 percent of customers were internal to Treasury, comprising about 80 percent of customer payments. Figure 2 provides an overview of the TFF's structure, services provided to customers, and examples of customer agencies.

[13]The TFF was one of six pilot programs authorized pursuant to the Federal Financial Reform Act of 1994. Pub. L. 103-356, title IV, § 403, 103 Stat. 3414 (Oct. 13, 1994). The Federal Financial Reform Act contained a sunset provision, which was extended on three occasions for Treasury's pilot program before the Consolidated Appropriations Act, 2005 granted the Treasury Franchise Fund permanent status. Pub. L. 108-447, title II, § 219, 118 Stat. 3242 (Dec. 8, 2004).

Figure 2: Overview of the Treasury Franchise Fund's Structure and Lines of Business

Oversight	Line of business	Service categories	Examples of customer agencies
• Assistant Secretary for Management • Shared Services Council • Financial Management Oversight Committee	Shared Services Programs	• Human Resources • Telecommunications • Cybersecurity • IT Strategy and Technology Management	• United States Mint, • Peace Corps, and • Department of Commerce
	Administrative Resource Center Administrative Services	• Financial Management • Procurement • Travel • Human Resources	• Consumer Financial Protection Bureau, • Department of Housing and Urban Development, and • United States Food and Drug Administration
	Administrative Resource Center Information Technology Services	• Hosting • End User • Security • Software Engineering • IT Project Management	• Department of Homeland Security, • Financial Crimes Enforcement Network, and • Treasury Departmental Offices

Source: GAO. | GAO-16-477

ASFF and TFF Support Initiatives to Promote Shared Services Government-wide

Beginning in March 2013, the administration began implementing several initiatives to promote the use of shared services across the federal government. FAA's ASFF and Treasury's TFF support some of those initiatives.

- **Federal Shared Service Providers (FSSP):** In March 2013, OMB issued a memorandum that directed federal agencies to consider migrating to FSSPs when analyzing alternatives for modernizing their financial systems.[14] To facilitate the transition to shared financial systems, OMB and Treasury's Office of Financial Innovation and Transformation—an office responsible for helping agencies become more efficient and transparent in federal financial management—designated four FSSPs for financial management:

[14]OMB, *Improving Financial Systems Through Shared Services*, M-13-08 (Washington, D.C.: Mar. 25, 2013). The Department of the Interior's Interior Business Center receives financing through two IRFs, the Working Capital Fund and the Interior Franchise Fund. Therefore, there are a total of five IRFs that finance the four FSSPs for financial management.

- Treasury's Administrative Resource Center (ARC) (a TFF line of business),
- the Department of the Interior's Interior Business Center,
- the FAA's Enterprise Services Center (ESC) (an ASFF line of business), and
- the Department of Agriculture's National Finance Center.

According to OMB, agencies that receive financial management services from a FSSP will be able to adopt the accounting standards listed in the DATA Act more rapidly and at lower costs.[15]

Example of an Agency Moving to a Federal Shared Service Provider

In 2014, the Department of Housing and Urban Development (HUD) began transitioning services to the Treasury Franchise Fund's (TFF) Administrative Resource Center Administrative Services (ARC Admin) line of business in a phased approach. As of the beginning of fiscal year 2016, HUD has completed three of four phases by transitioning travel, time and attendance, and finance and acquisition services to the ARC Admin line of business. HUD officials told us that the last phase to migrate grant and loan programs is pending due to the complexity surrounding HUD's 68 grant programs and approximately 20 information technology systems and ongoing discussions regarding whether or not to migrate these to a shared services provider.

Source: GAO analysis of HUD data. | GAO-16-477

- **Shared Services and Benchmark/Improve Mission-Support Operations Cross-Agency Priority Goals:** The President's fiscal year 2015 budget, released in March 2014, introduced two CAP goals focused on improving efficiencies in administrative functions across the government. The shared services CAP goal is focused on strategically expanding high-quality, high-value shared services to improve performance and efficiency across government. The administration made completing the migration to shared financial management systems the top priority of the shared services CAP goal focusing on agencies where the business case for modernizing internal systems is not the best solution based on agencies' needs, risk, and cost, compared to purchasing services from a FSSP. While the CAP goal has a four-year timeframe, OMB staff said that moving federal agencies to shared services will likely span future administrations.

  The benchmark CAP goal is focused on improving administrative efficiency and increasing the adoption of effective management practices by (1) establishing cost and quality benchmarks of mission-

[15]The DATA Act, enacted in May 2014, requires federal agencies to adopt government-wide financial data standards. Pub. L. No. 113-101, 128 Stat. 1146 (May 9, 2014).

support operations and (2) giving agency decision-makers better data to compare options, allocate resources, and improve processes. In May 2015, Treasury's Office of Financial Innovation and Transformation updated the *Federal Financial Management Services Catalog*, which included placeholders for estimated prices and price ranges for the services offered by the financial management FSSPs. Treasury expects to complete another update of the catalog in the third quarter of 2016, which is intended to include standardized pricing and metrics for the FSSPs supporting financial management. As of the fourth quarter of fiscal year 2015, OMB was working with federal agencies to enhance the pricing transparency for the financial management FSSPs and develop and refine metrics for benchmarking the cost and quality of government-wide shared services.

- **Shared Services Governance Structure:** In October 2015, the Unified Shared Services Management office was created within the General Services Administration to help integrate agencies with shared service providers such as the ASFF's ESC and the TFF's ARC, improve shared services delivery, and increase agency adoption of shared services. Working with the Unified Shared Services Management office, OMB is leading a cross-governmental Shared Services Governance Board that is to serve as a decision-making body for government-wide shared services initiatives. Representatives from FAA and Treasury serve on the governance board given that ESC and ARC are both financial management FSSPs. OMB staff said this Board held its first meeting in November 2015 and plans to meet monthly.

FAA and Treasury Have Policies and Procedures for Effectively Managing the Funds, but Could Enhance Pricing Transparency and Performance Measurement

ASFF and TFF Documentation Clearly Delineates Roles and Responsibilities

The roles and responsibilities for managing and overseeing aspects of the ASFF and the TFF are clearly documented and segregated across a number of entities and offices, which can help minimize the risk of error in fund management.

- **FAA's ASFF:** FAA's ASFF Charter describes the structure and operating framework for the ASFF and assigns various responsibilities for oversight and management of the fund. The charter notes that the Franchise Fund Management Council—comprised of FAA and Department of Transportation officials—is responsible for strategic management and oversight of the ASFF. The council monitors its strategic performance and decides on any changes to the ASFF's operations, such as reviewing and approving business and strategic plans. Moreover, the charter also noted that the FAA Mike Monroney Aeronautical Center's Office of Budget and Performance (ASFF's program management office) monitors the ASFF's organizational performance and the financial position of the fund. It reviews performance monthly and provides a quarterly report to the ASFF Director. Semi-annual reports are provided to the FAA Franchise Fund Management Council. This office also prepares budgetary information and coordinates line of business agreements to ensure terms are in accordance with laws and guidance. The ASFF received an unqualified audit opinion in fiscal year 2015, meaning that its financial statements and controls are in accordance with U.S. generally accepted accounting principles.

- **Treasury's TFF:** Treasury's TFF Charter defines the TFF's purpose, management structure, and reporting procedures. The charter notes that Treasury's Assistant Secretary for Management is responsible for overall oversight and policy setting, including creating and maintaining Treasury-wide policies and rules related to the TFF's legislative authority. The Office of the Deputy Chief Financial Officer and Shared Services Division support the corporate management and oversight of the TFF. Additionally, Treasury has processes in place to safeguard financial information, ensure the accuracy of financial management functions, and maintain compliance with relevant federal requirements. For example, the TFF's accounting system is audited annually to test the suitability of the design and operating effectiveness of its controls, in accordance with generally accepted government auditing standards. The TFF received an unqualified audit opinion in fiscal year 2015, meaning that its financial statements and controls are in accordance with U.S. generally accepted accounting principles.

All ASFF and TFF customers we interviewed told us they have a clear understanding of whom to contact with questions about various topics, such as billing. For example, Nuclear Regulatory Commission officials described their weekly communication with FAA officials as effective, with these officials responding to inquiries and providing reliable support. HUD officials noted that they communicate with Treasury officials through daily phone calls and e-mails. They described Treasury officials as being very responsive. Moreover, HUD officials stated that they have clear lines of communication and know exactly who in Treasury to contact to resolve any issues that arise with the TFF's services provided to HUD.

FAA and Treasury Have Processes to Obtain Input and Address Needs of ASFF and TFF Customers

FAA and Treasury outreach to ASFF and TFF customers, respectively, through multiple formal and informal communication channels. Established channels of communication give customer agencies opportunities to provide input about services in a timely manner. This enables service providers, such as the ASFF's ESC, to regularly assess whether customer needs are being met or have changed. This also enables service providers to prioritize customer demands and use resources efficiently. For example, both agencies survey customers and hold annual forums for fund customer agencies to provide information on fund operations and address topics of interest, such as pricing and costs of the programs. FAA and Treasury also have telephone conversations and conduct informal site visits with customers to discuss such topics as service and performance, adequacy of customer support, pricing information, and modifications to interagency agreements—the contract between the fund and the customer agency outlining the cost and level of services to be provided.

FAA and Treasury have strategies for adjusting the ASFF's and TFF's resource levels, respectively, to respond to changes in customers' demand for the funds' services. For example, FAA officials told us that the lines of business manage changes in customer demand for the ASFF's services through the employment of contractors, reassigning ASFF's full-time equivalent staff as needed, and leveraging the operating reserve (which we discuss in more detail later in this report).[16] Similarly, Treasury officials told us that when considering accepting new customers for TFF,

[16]The operating reserve is a portion of the unobligated balances that FAA and Treasury use to smooth out fluctuations in revenue and costs due to business-cycle instability.

they evaluate the effect and seek to mitigate any negative impacts on the level of service provided to current customers. For example, Treasury officials said they did not accept additional large customer agencies when HUD became a new customer of the Administrative Resource Center Administrative Services (ARC Admin) line of business in 2014 given the level of effort required to transition HUD to Treasury services. Additionally, there was no overall change in the level of service provided to customers with regard to ARC Admin's quarterly metrics since HUD started receiving services in fiscal year 2014 despite the increase in demand from HUD. For example, Treasury met ARC Admin's target of having an average human resources help desk call abandonment rate of less than five percent in fiscal years 2013, 2014, and 2015, respectively. Similarly, Treasury met ARC Admin's target to pay 95 percent of purchase card payments within four business days from statement approval in fiscal years 2013, 2014, and 2015, respectively.

FAA and Treasury Recovered Fund Costs, but Potential Customers' Access to Pricing Information Could Be Enhanced for Most Lines of Business

FAA and Treasury Recovered ASFF and TFF Operating Costs, Respectively, Over the Last 6 Fiscal Years

For fiscal years 2010 through 2015, both the ASFF and the TFF had a positive total net income, meaning that total revenues were greater than total costs. The laws authorizing the ASFF and the TFF require that the funds recover all expenses of operations. As shown in table 1, both funds experienced years of positive and negative net income over that period. This is expected given that the ASFF and the TFF are intended to operate on a break-even basis over the long term.

Table 1: Administrative Services Franchise Fund (ASFF) and Treasury Franchise Fund (TFF) Recovered Costs From FY 2010 through FY 2015

(Dollars in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Total
ASFF							
Net Income	$2.2	-$0.5	$13.4	$7.9	$31.5	-$15.1	**$39.3**
TFF							
Net Income	$13.0	$4.6	$4.9	-$11.8	$74.8	-$0.3	**$85.2**

Source: GAO analysis of ASFF and TFF financial statements. | GAO-16-477

Both funds' net income during that period was affected by various factors.

- **FAA's ASFF:** FAA officials told us that $32 million of the ASFF's $39.3 million increase in net income was due to an accounting adjustment within the ESC line of business to capitalize the costs of an upgrade to the financial management system (DELPHI). The result of this adjustment was a decrease in $32 million of expenses within fiscal year 2014. With capitalization, these expenses will be recognized over the next 7 years as depreciation occurs. FAA officials told us that when this depreciation expense is factored in, the ASFF's net income from fiscal years 2010 through 2015 is approximately $7 million.

  From fiscal years 2014 to 2015, the decrease in $46 million in net income is due to changes in operating costs and revenue. According to FAA officials, operating costs increased by $66 million in fiscal year 2015 due to the reclassification of $32 million of DELPHI expenses, approximately $25 million in additional expenses to provide service to the Department of Labor (a new customer for the ESC line of business) and other new demand from customers, and a $10 million increase in the ASFF's capital reserve.[17] FAA officials said that these operating cost increases were offset by about a $25 million increase in the ASFF's revenue between fiscal years 2014 and 2015 due to increased demand from the Department of Labor.

- **Treasury's TFF:** Treasury officials stated that the reason for the $86.6 million increase in TFF's net income from fiscal years 2013 to

[17]The capital reserve is a portion of the unobligated balances designated by the ASFF for capital improvements and acquisitions.

2014 was the transfer of the Treasury Working Capital Fund programs into the TFF in October 2013. As part of the transfer, Treasury renamed the Treasury Working Capital Fund programs as the Shared Services Programs (SSP) line of business. According to Treasury officials, the programs from the Treasury Working Capital Fund had previously operated on an advance payment billing model. During fiscal year 2014, all advance payments tied to outstanding obligations from the Treasury Working Capital Fund were transferred into the TFF and were recorded as revenue for the TFF. This led to an increase in the TFF's net income that year. According to Treasury officials, this transfer of programs and resulting change in the billing model was fully vetted to all transferred customers before the transfer occurred, which allowed customers time to prepare for the changes in their accounting systems.

FAA and Treasury set fund prices for each customer based on cost drivers, such as the amount of goods or services that a customer uses, and overhead.[18]

- **Cost drivers:** Both FAA and Treasury use cost drivers to help set prices by allocating service costs to each customer based on their respective portion of the total cost drivers for the services provided within the lines of business. For example, the ASFF's FAA Leadership and Learning Institute line of business uses the number of instructor hours needed to provide the customers' level of requested training as the cost driver for its executive managerial training program. Similarly, for example, the TFF's SSP line of business uses the number of accounts as one of the cost drivers for its human resources services provided through the HR Connect service.[19]

- **Overhead:** For the ASFF, FAA charges all customers an ASFF overhead cost and an individual line of business overhead cost for each service a customer uses. Non-DOT customers are also charged an FAA corporate overhead cost. According to FAA officials, the ASFF overhead costs cover program management, quality and cost

[18]According to Treasury's *Federal Financial Management Services Catalog*, a cost driver is any factor that causes a change in the price of a service.

[19]HR Connect is a human resources system that managers and employees can use to perform a wide array of transactions at various stages of an employee's life cycle, such as hiring, promoting, transferring, and separating.

savings initiatives, and program enhancements. FAA officials noted that the line of business overhead cost covers the line of business's management costs. The FAA corporate overhead cost represents the costs incurred by FAA headquarters in activities related to the oversight of the fund. These overhead charges are included in detailed cost documents that FAA officials said are provided to customers.

For TFF, Treasury incorporates overhead costs into prices for each line of business's services. For example, existing customers of the SSP line of business are charged an overhead fee based on the total amount of services included in the previous year's interagency agreement, excluding overhead charges from the prior year. New customers of the SSP line of business are charged a 4 percent overhead fee for the first year of receiving services. This overhead charge covers support costs, such as space, physical security, legal services, accounting, budget formulation, and audits.

Both funds' pricing information is reviewed by their respective oversight bodies. For Treasury's TFF, the Shared Services Council reviews the TFF's pricing and cost information as part of its meetings, which occur at least semi-annually.[20] For FAA's ASFF, the Fund Director, who is responsible for the financial and business operation of the fund, coordinates with the fund's service activity managers on the ASFF's cost studies and pricing structure.

FAA and Treasury Could Enhance Potential Customers' Access to Pricing Information for Most Lines of Business

Both FAA's ASFF and Treasury's TFF share pricing information with the respective funds' customers in various ways, but FAA does not make this information accessible to potential future customers for any of the ASFF's lines of business. In addition, Treasury does not make this information available to potential customers for the Administrative Resource Center Information Technology Services (ARC IT) and SSP lines of business. Franchise funds were created to establish a market for providing common services to increase efficiency at reduced cost. The Congressional Research Service has noted that transparent prices are key to efficient markets and that greater price transparency, such as accessibly posted

[20]The Shared Services Council is composed of the Treasury Assistant Secretary for Management—who is also the Chief Financial Officer—(Chair), Fiscal Assistant Secretary (Co-chair), and Treasury Bureau Deputy Commissioners or Directors. The Shared Services Council is an advisory body for all TFF programs that accounts for customer perspectives in operating decisions.

prices, might lead to more efficient outcomes at lower prices.[21] If consumers can obtain price information easily, they better understand the pricing for the services offered by the providers and potentially compare costs and different choices.

- **FAA's ASFF:** FAA officials share pricing information with the ASFF's customers in several ways. For example, each customer's interagency agreement includes, among other information, pricing of all services requested. Also, an FAA official stated that one line of business presents ASFF pricing information to customers at an annual customer forum as well as through ongoing communications. According to FAA officials, additional pricing information is specific to each line of business because each line of business has a tailored cost model based on the cost drivers specific to their service offerings.

  While the ASFF's ESC line of business does not currently make its pricing information publicly available, the ESC Director stated that because ESC services a number of customers across the federal government, it plans to make financial management pricing information accessible to the public, including potential customers in the future, through Treasury's *Federal Financial Management Services Catalog* and the timeline set by Treasury. As part of its initiative to share standardized pricing information for the FSSPs, Treasury has reported that ESC's pricing information for financial management services will be included in the next update of the *Federal Financial Management Services Catalog* in the third quarter of 2016. However, financial management is just one of the seven service lines offered by the ESC line of business. The ESC line of business also provides customer agencies with information technology services, which is an area that the leaders of the shared services CAP goal plan to target in the future.

  For the other ASFF lines of business, according to FAA officials, there is currently limited demand for sharing prices publicly given the customized nature of the services provided to customers and many of the customers for the ASFF lines of business are internal to DOT. For example, for its FAA Logistics Center line of business, FAA officials

[21]Congressional Research Service, *Does Price Transparency Improve Market Efficiency? Implications of Empirical Evidence in Other Markets for the Health Sector*, RL341041 (Washington, D.C.: Apr. 29, 2008).

stated that the center provides specialized radar surveillance installation and repair to a limited number of customers. Additionally, for its FAA Leadership and Learning Institute line of business, officials said they provide managerial training on air traffic control issues that is specific to FAA needs. Officials said for these lines of business providing specialized services, they may consider making pricing information publicly available if the number of agencies demanding those services increases.

- **Treasury's TFF:** Treasury officials share pricing information with the TFF's customers through various channels, such as one-on-one meetings, phone calls, and an annual pricing forum. For example, one Treasury customer we interviewed described understanding that the cost for an executive training program was based on the number of executives in the agency. Additionally, each TFF line of business provides customers with documents explaining the pricing methodology for various services. For example, the ARC Admin line of business provides customers with a detailed price sheet that shows the overall direct and overhead costs for each program, such as the help desk within the travel service line, as well as customer-specific costs. In August 2015, Treasury began posting the price sheet for the ARC Admin line of business to its external website to improve overall transparency and help current and potential customers understand all components of the pricing methodology to further inform customers' business decisions.

  For the SSP line of business, Treasury officials said they have been working over the last several years to improve the transparency of the pricing methodology and overall costs. In fiscal year 2014, Treasury developed a SharePoint website where all customers internal to Treasury for the SSP line of business can access their interagency agreement, pricing methodologies, billing information, and program contacts. Beginning with the fiscal year 2016 billing cycle, Treasury began sharing with all SSP line of business customers—including those external to Treasury—a tool where customers can view costs for each service, including labor and non-labor costs, as well as infrastructure updates. In TFF's fiscal year 2016 customer satisfaction survey of the SSP line of business conducted in October 2015, almost half of the respondents said the fiscal year 2016 billing statements generated from this new tool provide much more detailed information than past years and that this detail helps improve the transparency of the SSP line of business.

Treasury officials said the expansion of non-Treasury customers for the SSP line of business is a current initiative for the TFF. Officials said that the new pricing tool shared with all customers at the beginning of fiscal year 2016 is a step in the right direction for publicly sharing the pricing information. According to these officials, the Treasury Shared Services Division has been working with Treasury's Chief Information Office to establish a Treasury network that will allow all non-Treasury agencies the ability to access the SSP line of business website. This on-going effort, which is expected to be completed over the next few years, is to help market Treasury shared services and expand the customer base.

The TFF's ARC Admin line of business, which as a financial management FSSP supporting the shared services CAP goal provides services to customers across the federal government, makes its pricing information publicly available to potential customers. However, Treasury officials explained that they do not make prices publicly available to potential customers for the ARC IT line of business because, in fiscal year 2015, about 93 percent of its revenue came from customers at the Bureau of Fiscal Service within Treasury, which receives a detailed price invoice. In addition, Treasury officials stated that the ARC IT line of business has been cautious about making IT service pricing available to the public due to the sensitivity, complexity, and security of this type of information. However, a Treasury official noted that there has been a recent increase in the number of agencies outside of Treasury wanting to purchase services from the ARC IT line of business as a result of cyberattacks on federal agencies. While services by the ARC IT line of business are unique for each customer with different potential prices, a Treasury official said making the service unit costs (e.g., the hourly rate for software engineering services) publicly available is something they could do going forward.

Making pricing information publicly available can help future customers understand the pricing of the service providers and potentially compare costs and services of the providers. Currently, potential customers of most lines of business within the ASFF and the TFF can only understand a price estimate or a range of available prices by entering into negotiations with individual lines of business. In addition, once a customer begins to buy services from the funds, there may be significant upfront implementation costs that may make it difficult to justify discontinuing services in the near term if a customer wants to change service providers. As mentioned earlier, in May 2015, Treasury's Office of Financial

Innovation and Transformation updated and posted on its website the *Federal Financial Management Services Catalog* to include placeholders for estimated prices and price ranges for the services offered by the financial management FSSPs, including Treasury's ARC and FAA's ESC line of business. According to Treasury's Office of Financial Innovation and Transformation, making pricing information publicly available—even ranges of price estimates—can help current and potential customer agencies understand the factors contributing to the shared service providers' prices. It also can help customers get a sense for the rough order of magnitude estimates of potential prices for if they were to buy the services from a FSSP. Ultimately, current and potential customer agencies can use publicly available pricing information to better understand pricing information and potentially compare services across service providers.

FAA and Treasury Measure Fund Performance, but Most of FAA's Metrics Are Not Publicly Available and One TFF Line of Business Has Limited Performance Metrics

FAA and Treasury have strategic goals with supporting metrics for the ASFF and TFF, respectively, to help measure performance of the fund and whether fund activities support overall goals. However, both funds could further improve their performance measurement efforts by FAA making its metrics publicly available and Treasury further developing performance metrics for one line of business.

- **FAA's ASFF:** FAA has five strategic goals for the ASFF with performance metrics that help measure the performance of the fund's services provided. For example, for the ASFF strategic goals to "inject competition and market forces into government and customer satisfaction" and "increase customer orientation by creating a buyer seller relationship", FAA has supporting metrics, such as the percentage of travel payments completed within 8 days, number of defective parts per 1,000, and customer wait time for services. FAA met 17 of 21 of the ASFF's targets for its fiscal year 2015 performance metrics. For example, for the ESC line of business, FAA set a goal to make greater than 95 percent of travel payments in eight days and made over 99 percent of such payments within that timeframe. Similarly, for the FAA Logistics Center line of business, FAA set a goal to have 3.8 shipping defects per 1,000 parts and had 2.3 shipping defects per 1,000 parts.

  FAA officials use the metrics to monitor the efficiency of an ASFF line of business, and periodically adjust the metrics to ensure that they remain ambitious. For example, FAA revised the target for the Acquisition Services' line of business cost-to-award procurements metric of less than 2.5 percent of the procurement, which was met during the prior fiscal year, to less than 1.75 percent of the procurement to help encourage further efficiency. FAA officials said ASFF management reviews the metrics monthly, shares the metrics quarterly with the ASFF director, and briefs the FAA Franchise Fund Management Council semiannually on the metrics.

According to FAA officials, the lines of business make the metrics available to customers when discussing the interagency agreements for the services provided by that line of business. Specifically, officials said providing the customers with the metrics for measuring the quality of the services provided by that line of business helps them understand how the fund is performing. For example, FAA officials stated that the FAA Leadership and Learning Institute line of business reports its performance, such as overall course satisfaction, monthly to FAA—which officials noted is its only customer due to the specialized nature of its air traffic control training. Additionally, the ESC line of business provides monthly reports to customers containing performance metrics.

However, FAA does not make the ASFF's goals and performance metrics publicly available to potential customers with the exception of some metrics by the ESC line of business. The ESC's metrics for the DELPHI financial management system are available on FAA's external website. As part of OMB's initiative to standardize and share the performance metrics of the financial management FSSPs, the metrics for the ESC line of business will be publicly available in the future through updates of Treasury's *Federal Financial Management Services Catalog*. The ESC line of business though is just one part of the ASFF.

For the other ASFF lines of business, FAA officials said in general, the lines of business offer highly specialized services to a limited customer base and there is not the external demand for the metrics to be publicly available. However, we have reported that agencies should make metrics that measure the services provided to customers available because without such easily available information, potential customers may not know what to expect, when to expect it, or from whom.[22] For example, potential customers who might consider using

[22]GAO-15-84.

the FAA Logistics Center line of business, which services the Department of Defense, Coast Guard, and Customs and Border Protection, among other agencies, may want to understand how well it has performed on its metric regarding the number of shipping defects per parts ordered. Communicating this information to the public in a way that is useful and readily available to customers is important in enabling the public to hold government accountable and to inform customer decision making. Because FAA does not publicly report the ASFF's performance toward its goals and metrics, potential customers are unable to fully understand how the fund is performing. It is important for franchise funds such as the ASFF to provide competition into the market for providing common administrative services. Also, a well-functioning market requires transparent information about the funds' performance.

- **Treasury's TFF:** Treasury has six strategic goals for the TFF that align with Treasury's overall strategic goals for the department to "fairly and effectively reform and modernize federal financial management, accounting, and tax system" and "create a 21st-century approach to government by improving efficiency, effectiveness, and customer interaction" and performance metrics to help oversee the performance of the fund. For example, for the TFF strategic goal to "continue to assess and report TFF's performance and provide timely feedback to customers", Treasury has supporting metrics, such as the response time to resolve non-critical issues/help desk tickets within 10-15 business days and percent of incidents resolved on time. Treasury makes the goals and metrics publicly available each year in the TFF's congressional budget justification, which is posted on Treasury's website for customers and the public to access. According to the TFF's fiscal year 2017 budget justification, Treasury met 12 of 17 of the TFF's targets for the fiscal year 2015 performance metrics. For example, for the ARC Admin line of business, Treasury set a target to resolve 50 percent of help desk inquiries related to its financial management system (Oracle) on the first call and achieved a 57 percent resolution of such inquiries on the first call. For one of the metrics not met, Treasury said although the SSP line of business achieved 84 percent customer satisfaction with its HR Connect Service—compared to its target of 90 percent customer satisfaction—it plans to continue to improve and strives to maintain the level of satisfaction as customer expectations are increasing.

  Treasury officials said that they report the performance metrics quarterly to OMB and use the metrics to track the performance of each line of business throughout the year. According to Treasury officials, Treasury management reviews the TFF's metrics each quarter to ensure that they provide relevant information to help monitor and identify opportunities to improve services provided. For example, Treasury officials said they monitor the direct costs of providing services for the ARC Admin line of business, such as the direct cost per system user of TFF's financial management system (Oracle). Further, Treasury adjusts the metrics each year to help ensure the services provided are being accurately measured. For example, for fiscal year 2014, Treasury added ten new metrics for each service line within the ARC Admin line of business to help measure and report on performance of each service line in isolation rather than as a blended organizational measure.

While Treasury tracks and publicly reports on various metrics for the TFF, these performance measures do not capture the majority of the services provided to the customers served by the SSP line of business and are limited primarily to human resources services provided through the HR Connect Service. The SSP line of business also provides telecommunications, cybersecurity, and information technology services to customers. Having performance metrics that measure programs within the fund can help the agency evaluate whether, and if so how, fund activities are contributing to the achievement of its strategic goals.[23] When asked about the limited scope of these performance metrics, Treasury officials stated that they are currently revising SSP's performance metrics to be more inclusive of all the services provided instead of just human resources and customer satisfaction. Officials told us that since the SSP line of business has only been part of the TFF since fiscal year 2014, they have not yet performed the benchmarking analysis necessary to develop a more complete set of performance metrics. Officials stated that this is an ongoing effort and any revisions to the metrics would likely be included in the fiscal year 2018 TFF congressional budget justification. However, Treasury officials do not have a plan with clear dates and milestones for completing the benchmarking analysis and revising the metrics within this timeframe. Without a more complete set of performance measures, Treasury officials managing the SSP line of business and customers do not have complete information on how the various programs are performing to determine what aspects

[23] GAO-12-56.

of the programs need improvement or in the case of the customers, whether to continue buying services from that provider.

FAA and Treasury Have Processes for Managing Unexpended Balances, but Could Improve Documentation of Operating Reserve Policies

FAA's and Treasury's Unexpended Balances Support Maintaining Self-Sufficiency and Providing Continuous Services for the Funds

As intragovernmental revolving funds operating on a fee-for-service basis, FAA and Treasury maintain unexpended balances in the ASFF and the TFF, respectively. This ensures that the funds can operate on a self-sufficient basis without annual appropriations and that the agencies can continue to provide services to customers.[24] Having these balances is essential to the agencies achieving the funds' missions and goals to provide services to customers.

[24]An unexpended balance in an IRF consists of two parts: obligated balances and unobligated balances. Obligated balances are the amounts in an IRF for which funds have been obligated against an order placed with the IRF, but have not been fully liquidated. Unobligated balances are the amounts in an IRF that are either earned and legally available for obligation, or unearned advances that have not been obligated by the agency to fulfill the order.

Key Questions for Evaluating Unexpended Balances

What mission and goals is the account or program supporting?

Understanding the mission activities, goals, and programs a fund supports provides information about whether a program needs to maintain an unexpended balance to operate smoothly, what size balance is appropriate, and whether opportunities for savings exist.

Source: GAO-13-798. | GAO-16-477

One part of the unexpended balances that FAA and Treasury use to support the mission and goals of both funds is the reserves. The authorizing legislation for both the ASFF and TFF provide the agencies the authority to retain a reasonable operating reserve, as determined by the FAA Administrator or Treasury Secretary, respectively. This can be used to financially support ongoing operations in the funds. For example, FAA uses operating reserve funding to smooth out unexpected fluctuations in demand due to business-cycle activity. In addition, both funds can retain up to 4 percent of the total annual income from the funds' operations for capital improvements, such as infrastructure, equipment replacement, and upgrades. For both funds, these reserve funds are without fiscal year limitations and are retained until expended.

FAA and Treasury Have Processes for Ensuring Customers' Funds Are Used in Accordance with Fiscal Limitations

Key Questions for Evaluating Unexpended Balances

What are the sources and fiscal characteristics of the funding?

The sources and fiscal limitations of the funding influence what opportunities may exist for budgetary savings in a revolving fund.

Source: GAO-13-798. | GAO-16-477

FAA and Treasury officials have processes in place for the ASFF and TFF, respectively, to ensure that customers' orders are filled in a timely manner, and advance payments from customers are timely obligated or returned to customers. Customers' advance payments to FAA's ASFF retain the period of availability from their original appropriation and are earned as ASFF works on the customer order. Once earned, those amounts are available to ASFF without fiscal year limitation. Since Treasury's TFF operates only on a reimbursable basis, those amounts provided by the customer are retained by the TFF and are available without fiscal year limitation.[25]

- **FAA's ASFF:** According to FAA officials, one way the FAA ensures a customer's funds are used in accordance with fiscal limitations is by having the FAA accounting office and the ASFF lines of business track obligations for projects that span fiscal years. The accounting office informs the lines of business at least 6 months prior to the cancellation date of the customer's funds that those funds should be liquidated before being cancelled.[26] FAA acknowledges there may be instances where they do not liquidate all of a customer's advance funds because service levels were less than estimated or costs were

[25]For further discussion about the treatment of customer advances in revolving funds, see GAO, *Intragovernmental Revolving Funds: NIST's Interagency Agreements and Workload Require Management Attention*, GAO-11-41 (Washington, D.C.: Oct. 20, 2010).

[26]On September 30th of the fifth fiscal year after the period of availability for obligation of a fixed appropriation account ends, the account is closed and any remaining balance in the account is canceled. 31 U.S.C. § 1552.

lower than anticipated. In those cases, FAA officials told us that the line of business will have a discussion with the customer agency—usually well in advance of the customer's appropriation closing—about returning the excess funds to the customer. For example, FAA returned about $126,000 to the Nuclear Regulatory Commission in November 2014 that was left over at the end of a completed project.

- **Treasury's TFF:** Treasury also has mechanisms for ensuring that customers' funds are used in accordance with fiscal limitations. For example, all TFF interagency agreements list the accounting closing date of the customers' funds, since customers pay for their services with one-year, multi-year, and no-year funds. The TFF's interagency agreements also include a tracking number so that fund managers and customer agency budget and finance staff can track the funds in their applicable financial systems. Treasury officials said they approve and record obligations on a real-time basis and review obligated balances quarterly in the accounting system. TFF interagency agreements are an annual fixed fee structure with an equal portion billed monthly (e.g., 1/12th).

FAA and Treasury Identified Factors That Affected the Size or Composition of the Balances

Key Questions for Evaluating Unexpended Balances

What factors affect the size or composition of the unexpended balance?

It is important to consider which factors affecting unexpended balances are within the agency's control and which are not. The rate at which obligations are incurred and subsequently liquidated in a fiscal year can vary with the nature of the activity. Understanding what drives this "spendout rate" provides information on the size of the unobligated portion of the balance versus the obligated portion; this in turn provides insight into the composition of the unexpended balance as a whole.

Source: GAO-13-798. | GAO-16-477

Many factors can influence the size and composition of the unexpended balances in FAA's ASFF and Treasury's TFF. The rate at which both funds incur and liquidate obligations can vary with the nature of the activity. For example, if FAA or Treasury officials add new customers to the respective funds, the fund may incur greater obligations. As a result, the obligated portion of the unexpended balances may increase in the fiscal year in which new customers were added.

An unexpended balance in an IRF consists of two parts: obligated balances and unobligated balances. Obligated balances are the amounts in an IRF for which funds have been obligated (i.e., a definite commitment by the IRF establishing a legal liability for the payment for goods and services ordered or received) against an order placed with the IRF, but have not been fully liquidated. Unobligated balances are the amounts in an IRF that are either earned and legally available for obligation, or unearned advances that have not been obligated by the agency to fulfill the order.

For ASFF, FAA officials said the ASFF's obligated balances consist of amounts obligated, but not yet expended to fulfill a customer's order by providing the good or service to the customer. The ASFF's unobligated balances consist of the (1) unearned revenue received as advance payments from customers to the fund before the fund performs the service, and (2) earned revenue resulting from customer payments after the fund performs the service. This earned revenue remains in the fund to execute future orders, or as a statutorily-authorized reserve, until expended. The size of the ASFF's unexpended balance from fiscal years 2010 through 2015 is shown in table 2. In fiscal year 2014, the ASFF's unexpended balance increased by 36 percent from $267 million to $363 million.

Table 2: Administrative Services Franchise Fund Unexpended Balance, End of FY 2010-FY 2015

(Dollars in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Obligated Balance	$164	$129	$162	$146	$177	$173
Unobligated Balance:						
Unfilled Customer Orders[a]	$218	$163	$159	$163	$239	$248
Undelivered Customer Orders[b]	-$147	-$93	-$119	-$118	-$134	-$130
Capital Reserve	$38	$36	$48	$48	$43	$33
Operating Reserve	$22	$22	$22	$22	$22	$21
Supply Chain[c]	$0	$0	$0	$8	$17	$13
	$131	$129	$111	$122	$188	$185
Unexpended Balance	$294	$257	$272	$267	$363	$358

Source: GAO analysis of OMB MAX and Federal Aviation Administration data. | GAO-16-477

Note: Numbers may not total due to rounding.

[a]FAA records advance payments from customers as an unfilled customer order in the financial system.

[b]FAA considers all undelivered customer orders to be obligated and part of the obligated balance. As FAA begins to incur obligations as it performs services for customers, FAA transitions the advance funding received and recorded as unfilled customer orders to earned revenue by performing goods and services. The activities required to provide the goods and services become undelivered customer orders by creating obligations in the financial system. The negative value for the undelivered customer orders represents this transition from unobligated to obligated funds.

[c]FAA also includes in the unobligated balance an amount for supply chain reserve to account for proprietary and budgetary accounting and their timing differences in the recognition of the cost of inventory purchases.

FAA officials said that many factors influenced the increase in the size of the ASFF's unexpended balance from fiscal years 2013 to 2014. For the unobligated portion, FAA officials attributed part of the increase to a $60 million increase in demand for services from one of its customer agencies—the Department of Homeland Security's Customs and Border Protection. For the obligated portion, FAA officials attributed part of the increase in obligations to increased requests for travel and data analysis services from the Office of Personnel Management, Equal Employment Opportunity Commission, and Department of Labor.

For TFF, unobligated balances are the amounts that are earned and legally available for obligation, and obligated balances are the amounts for which the TFF's funds have been obligated to fulfill an order, but have not been fully liquidated. The size of the TFF's unexpended balance was relatively stable from fiscal years 2010 through 2013. However, in fiscal year 2014, it increased by 131 percent from $101 million to $233 million, as shown in table 3 below.

Table 3: Treasury Franchise Fund Unexpended Balance, End of FY 2010-FY 2015

(Dollars in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Obligated Balance	$17	$23	$48	$3	$85	$102
Unobligated Balance	$71	$72	$65	$98	$148	$159
Unexpended Balance	$88	$95	$113	$101	$233	$261

Source: GAO analysis of OMB MAX data. | GAO-16-477

Note: For the TFF, the unobligated balance directly corresponds to the amount in the reserve; no distinction is made between an operating reserve and a capital reserve.

Treasury officials stated that the increase in the size of the TFF's unexpended balance from fiscal years 2013 to 2014 was caused by the merger of the SSP line of business, formerly part of Treasury's Working Capital Fund programs, into the TFF in fiscal year 2014. Prior to being transferred to the TFF, the SSP line of business operated on an advance payment model (as compared to the TFF which operates on a fee-for-service basis). During fiscal year 2014, all advance payments from former Working Capital Fund customers tied to outstanding obligations were transferred into the TFF. Going forward, a Treasury official said he expects the unexpended balances in the TFF to remain steady or even increase to help with future needs of the fund. This includes a planned telecommunications project over the next 5 years.

FAA and Treasury Estimate and Manage Unexpended Balances, but Could Improve Documentation of Operating Reserve Policies

Key Questions for Evaluating Unexpended Balances

How does the agency estimate and manage unexpended balances?

Understanding an agency's processes for estimating and managing unexpended balances that carryover into the next fiscal year provides information to assess how effectively agencies anticipate program needs and ensure the most efficient use of resources.

Source: GAO-13-798. | GAO-16-477

FAA and Treasury have processes to effectively estimate and manage the balances in the ASFF and TFF, respectively. Agency management and estimation of unexpended balances helps ensure that any amounts carried over into the next year, in general, meet the amount the agency estimated is necessary to continue activities. As part of their unobligated balances, both agencies have reserves that they maintain to help manage planned and unplanned changes in customer demand and to fund and execute capital improvements.

According to an FAA official, FAA manages the capital and operating reserves at the overall fund level and by line of business. ASFF's program management office, through input from each ASFF line of business, monitors the individual operating reserve and capital reserve levels each month by line of business. FAA officials said activity within each line of business dictates how each of the reserve levels change. By managing the reserves at the overall fund level, according to an FAA official, the individual lines of business for the ASFF have the flexibility to run their reserves in the negative at any point during the year in extraordinary situations, such as late payments from customers (for example, as occurred due to the fiscal year 2013 sequestration), as long as the total amount of the overall reserve is non-negative. For example, the operating reserve for the ESC line of business was negative by almost $1.2 million in January 2015 due to a lag in receipt of customer payments, although the ASFF's operating reserve had a positive balance of about $16.2 million at that time. The ESC's operating reserve recovered to a positive balance of about $2.9 million by March 2015. An FAA official stated that they monitor the operating reserve closely to ensure that negative reserves only happen for short periods of time.

For the TFF, a Treasury official said they have an annual review process for calculating the operating reserve requirements for the following four categories of the reserve: (1) cash flow; (2) business risk; (3) insurance/reconstitution; and (4) investments (see text box). Each line of business calculates the required amount for the operating reserve needs along these categories using the prior year's reserve amounts as a guide. Treasury then compares the calculated requirement to the projected balance to determine any differences—estimated surplus or deficit. Treasury management uses these results to help make pricing adjustments for customers that are intended to reduce the estimated surplus or deficit.

The Treasury Franchise Fund's (TFF) Four Reserve Categories

- *Cash Flow:* This balance is equivalent to 30 days of each line of business' estimated annual expenditures. The TFF's lines of business do not receive advance payments from customers for services. Therefore, each line of business uses the reserve to pay for its operations and services until it receives offsetting collections from customers. Treasury officials stated that customers typically make their first payments to the TFF in late October of each fiscal year.
- *Business Risk*: The TFF's lines of business can access an amount of the reserve up to 10 percent of their estimated annual expenditures to cover unexpected losses in revenues or increases in expenditures, as a result of fluctuations in customer demand and the business cycle.
- *Insurance/Reconstitution:* The TFF's lines of business can access a portion of the reserve equal to $5,000 for each of their full time equivalent employees to cover lost, stolen, or damaged assets.
- *Investments*: A portion of the reserve is maintained for investments to be made by each line of business. This includes any major purchases or improvement of equipment or systems. The TFF's lines of business budget for these major investments up to 5 years in advance. The amount of these gross investments included in the reserve calculation reduces by 20 percent each year beyond the year of execution.

Source: GAO analysis of Treasury data. | GAO-16-477

FAA and Treasury Could Improve Documentation of Policies for Managing the Funds' Operating Reserves

While FAA and Treasury have processes to help them effectively manage unexpended balances in the respective funds, FAA's and Treasury's guidance for managing the operating reserves in the ASFF and TFF, respectively, does not include key policies—processes and steps—that officials are following to manage the operating reserves. We have previously reported on the importance of agencies establishing an operating reserve policy and relevant guidance and protocols to strengthen the transparency and communication of agency operations.[27] We have also reported on the importance of agency management internally communicating the necessary quality information, such as through written communication to help achieve the agency's objectives. Maintaining written policies and procedures can help ensure that adequate internal controls are in place to address risks and enforce management directives.[28]

[27]GAO, *Patent and Trademark Office: New User Fee Design Presents Opportunities to Build on Transparency and Communication Process*, GAO-12-514R (Washington, D.C.: Apr. 25, 2012).

[28]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: Sept. 10, 2014).

- **FAA's ASFF:** According to FAA officials, the guidance for managing the ASFF's reserve is contained in two documents: its authorizing legislation and guidance from the FAA Administrator in a 2003 policy letter. The authorizing legislation provides general guidance on how ASFF's operating reserve is to be managed. In particular, the legislation states that ASFF will charge sufficient rates to maintain a reasonable operating reserve, as determined by the FAA Administrator. The 2003 policy letter from the FAA Administrator provided authorization to increase the operating reserve limit from $1 million, which was set in 1997 when the fund was established, to an overall balance not to exceed 4 percent of ASFF's highest annual revenue. This annual level is determined on a line of business level rather than at the fund level. According to FAA officials, in general, the highest year's offsetting collections to date for most lines of business occurred in fiscal year 2010, with the ESC line of business recognizing a higher level for fiscal year 2014. As a result, the operating reserve limit for fiscal year 2015 is $21.9 million.

  FAA officials stated that they do not have a separate policy documenting how the operating reserve is to be managed because ASFF's authorizing legislation and the FAA Administrator's guidance provides sufficient explanation regarding the use and administration of the operating reserve. However, while FAA has processes to help effectively manage ASFF's operating reserve, FAA's written guidance does not include key policies that FAA officials told us they use to manage the ASFF's reserves. For example, the documents do not describe the role of the Franchise Fund Management Council, the decision of FAA to manage the reserve at the fund level instead of the individual line of business, or the methodology each line of business uses to calculate the amount of operating and capital reserves it will need in a given fiscal year. Although an FAA official told us that the FAA Franchise Fund Management Council approved the proposal to manage the ASFF's reserve at the fund level, this decision was not documented in policies. Written documentation of the process for managing operating reserves is essential to continue and help ensure consistency in implementation over time.

- **Treasury's TFF:** The guidance for managing and calculating the TFF's operating reserve is contained in three documents: (1) TFF's authorizing legislation, (2) the TFF Charter, and (3) the guidance on the four categories of the operating reserve. The legislation provides the Treasury Secretary with general authority for the TFF to maintain a reasonable amount of funds in the operating reserve. It also outlines the appropriate uses of the operating reserve fund, such as capital equipment acquisitions and the implementation and improvement of support systems. The TFF charter delegates the authorizing legislation provision for the Treasury Secretary to the Treasury Assistant Secretary for Management. The guidance on the four categories of the reserve outlines four appropriate uses for the reserve, as discussed earlier, and provides general guidance on how to calculate each component. Treasury considers the maximum amount that can be maintained in the reserve to be 4 percent of annual cash inflows plus the amount estimated based on operating reserve requirement calculations. According to a Treasury official, these calculations are reviewed by the Financial Management Oversight Committee and Shared Services Council, and approved by Treasury's Deputy Chief Financial Officer each year during the budget approval process.

As discussed earlier, Treasury officials have an annual process of determining the required amounts within the operating reserve that considers factors influencing the size of the reserves and the forecasted changes in the fund with supporting documents outlining the four categories of the reserve, and spreadsheets showing calculations for the required amounts. Officials believe that this process and the existing guidance on calculating the components of the operating reserve are sufficient for managing the operating reserve. While Treasury's process for managing the TFF's operating reserve and existing guidance has helped Treasury to effectively manage the reserve, the steps in the annual operating review process are not fully documented in agency guidance. Written documentation of the process for managing operating reserves provides a means to retain organizational knowledge, which can help ensure consistency in implementation over time.[29]

Conclusions

Intragovernmental revolving funds provide federal agencies with an opportunity to operate more efficiently by consolidating and providing services. Congress' creation of franchise funds, such as FAA's ASFF and Treasury's TFF, and the administration's establishment of the shared services CAP goal both strive to enhance the efficiency of government through a competitive market for common administrative services. This injection of competition into core services provides incentives for

[29]GAO-14-704G.

customer agencies and fund managers to reduce costs and maximize the benefits of shared services.

It is important for FAA and Treasury to focus on the management of the revolving funds. These funds help finance the delivery of the services to the customer agencies. In several areas, FAA and Treasury have policies and procedures for effectively managing the ASFF and the TFF, respectively. For example, the roles and responsibilities for managing and overseeing both funds are clearly documented in agency policies and are segregated across a number of entities, which can help minimize the risk of error in fund management. Also, FAA and Treasury have recovered all expenses of operations for the ASFF and the TFF, respectively over the last six fiscal years, which is important given that the funds are intended to operate on a break-even basis over the long term. However, as part of managing the funds and to support agencies' decisions on shared services, additional performance and pricing information for the funds needs to be available to, both, current and potential customers. This will help them understand the prices and determine the services they could receive for their payments and be able to understand how the fund is performing against its goals and metrics.

Additionally, FAA and Treasury have processes that help them to effectively manage the operating reserves in the respective funds, but they are not fully documented. Written policies should be in place to ensure the mitigation of risk and that adequate consideration is given to factors influencing the operating reserve requirements given the centrality of the operating reserve to the effective management of intragovernmental revolving funds. Moreover, written documentation of these processes is essential to ensure consistency in implementation over time and through transitions in leadership.

Recommendations for Executive Action

To help enhance efforts to expand shared services and improve the management of the Administrative Services Franchise Fund (ASFF), we recommend that the Secretary of Transportation direct the FAA Administrator to take the following three actions:

1. Make pricing information, such as ranges of prices, for the ASFF's lines of business publicly available, as appropriate, to help potential customers and agency decision makers understand prices and different choices of services.

2. Make the ASFF's strategic goals and performance metrics publicly available to help potential customers and agency decision makers understand how the fund is performing on the services provided.
3. Develop an operating reserve policy that documents all existing review processes that relate to management of the ASFF's operating reserves. These documented policies should include information on how fund managers are to assess the operating reserves, including guidelines to evaluate, use, and maintain the operating reserves over time.

To help enhance efforts to expand shared services and improve the management of the Treasury Franchise Fund (TFF), we recommend that the Secretary of the Treasury take the following three actions:

1. Make pricing information, such as ranges of prices, for the ARC IT and SSP lines of business publicly available, as appropriate, to help potential customers and agency decision makers understand prices and different choices of services.
2. Develop a more complete set of performance metrics for the TFF's SSP line of business to help managers of the SSP line of business, current and potential customers, and agency decision makers monitor and oversee how the fund is performing on the services provided.
3. Develop an operating reserve policy that documents all existing review processes that relate to management of the TFF's operating reserves. These documented policies should include information on how fund managers are to assess the operating reserves, including guidelines to evaluate, use, and maintain the operating reserves over time.

Agency Comments and Our Evaluation

We provided a draft of this report for review and comment to the Secretaries of Homeland Security, Housing and Urban Development, Transportation, and the Treasury; the Chairmen of the Merit Systems Protection Board and the Nuclear Regulatory Commission; the Director of the Office of Management and Budget; and the Assistant Attorney General for Administration at the Department of Justice.

Treasury and DOT provided comments on the draft report. Treasury provided written comments via e-mail as well as technical comments that were incorporated into the draft, as appropriate. DOT provided formal written comments which are reproduced in appendix II. Both Treasury and DOT concurred with all of our recommendations.

The Departments of Homeland Security, Housing and Urban Development, and Justice, as well as the Merit Systems Protection Board, the Nuclear Regulatory Commission, and the Office of Management and Budget had no comments on the draft report.

We are sending copies of this report to the appropriate congressional committees; the Secretaries of Homeland Security, Housing and Urban Development, the Treasury, and Transportation; the Chairmen of the Merit Systems Protection Board, and the Nuclear Regulatory Commission; the Director of the Office of Management and Budget; the Assistant Attorney General for Administration at the Department of Justice; and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact Heather Krause at (202) 512-6806 or krauseh@gao.gov. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.

Sincerely yours,

Heather Krause

Heather Krause
Acting Director, Strategic Issues

Appendix I: Objectives, Scope, and Methodology

Our objectives were to assess: (1) how two agencies manage select intragovernmental revolving funds (IRF) that finance shared services; and (2) how these agencies manage unexpended balances in select IRFs.[1]

To assess the management of select IRFs including unexpended balances, we selected the Federal Aviation Administration's (FAA) Administrative Services Franchise Fund (ASFF) and the Department of the Treasury's (Treasury) Treasury Franchise Fund (TFF), as case studies using the following criteria:

- IRFs that support a financial management federal shared service provider that contributes to the administration's shared services Cross-Agency Priority (CAP) goal; and
- the highest average ratio of the funds' unexpended balance to the total budgetary resources available (unexpended balance ratio).

To identify illustrative case studies we used a non-probability selection process based on queries of the Office of Management and Budget (OMB) MAX database.[2] Through this process we identified a total of 176 IRFs that were operating as of fiscal year 2015. There were five IRFs that supported one of the financial management federal shared service providers (FSSP) designated by OMB to contribute to the shared services CAP goal. While recognizing that an unexpended balance is necessary in IRFs since interagency agreements can cross fiscal years, our prior work has found that a high unexpended balance in working capital funds (a type of IRF) may indicate poor workload planning. This could lead to the inefficient use of agency resources and missed opportunities to use those funds for other needs.[3] For this reason we elected to use the unexpended

[1]An unexpended balance in an IRF consists of two parts: obligated balances and unobligated balances. Obligated balances are the amounts in an IRF for which funds have been obligated against an order placed with the IRF, but have not been fully liquidated. Unobligated balances are the amounts in an IRF that are either earned and legally available for obligation, or unearned advances that have not been obligated by the agency to fulfill the order.

[2]OMB MAX database is a computer system used to collect and process most of the information required for preparing the budget. OMB uses MAX to collect, validate, analyze, model, collaborate with agencies on, and publish information relating to its government-wide management and budgeting activities.

[3]See, for example, GAO, *Navy Working Capital Fund: Management Action needed to Improve Reliability of the Naval Air Warfare Center's Reported Carryover Amounts*, GAO-07-643 (Washington, D.C.: Jun. 26, 2007).

balance ratio as the selection criteria among the five IRFs that support shared services for financial management. Because we used the average unexpended balance ratio as an indicator for potential management issues at IRFs, we focused on the IRFs with the highest unexpended balance ratios from fiscal years 2010 through 2014—the ASFF and the TFF. See table 4 below. We found the data to be sufficiently reliable for the purpose of selecting case studies.[4]

Table 4: Unexpended Balance Ratio for Intragovernmental Revolving Funds Supporting Shared Services for Financial Management

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Average
Federal Aviation Administration, Administrative Services Franchise Fund	43.6%	45.2%	45.4%	46.9%	56.9%	47.7%
Department of the Treasury, Treasury Franchise Fund	36.1%	37.4%	33.9%	26.7%	37.9%	34.6%
Department of the Interior, Interior Franchise Fund	32.7%	29.7%	21.3%	25.4%	26.2%	27.2%
Department of the Interior, Working Capital Fund	16.4%	23.1%	19.0%	16.7%	18.7%	18.8%
U.S. Department of Agriculture, Working Capital Fund	14.5%	9.2%	14.4%	14.7%	18.2%	14.3%

Source: GAO analysis of OMB MAX data. | GAO-16-477

To address our first objective, we assessed the management of the ASFF and the TFF against our framework for effective IRF management. This is described in the text box below.[5] We shared these operating principles with FAA and Treasury prior to our detailed review.

[4]To determine the reliability of the data, the team cross-checked a selection of the MAX data against the numbers reported in the corresponding President's Budget Appendices. Data reported in MAX and the Budget Appendix are subject to rigorous review and checks through OMB to help ensure consistency of the data. Accordingly, such data were considered reliable for the purpose of this report.

[5]GAO, *Intragovernmental Revolving Funds: Commerce Departmental and Census Working Capital Funds Should Better Reflect Key Operating Principles*, GAO-12-56 (Washington, D.C.: Nov. 18, 2011).

Intragovernmental Revolving Funds Key Operating Principles

In 2011, we identified four key operating principles that offer a framework to effectively manage intragovernmental revolving funds (IRF). IRFs provide agencies with an opportunity to operate more efficiently by consolidating services and creating incentives for customers and managers to exercise cost control and economic restraint. Given the fiscal pressures facing the federal government, consolidating operations could potentially achieve cost savings and help agencies provide more efficient and effective services. Agencies can maximize the potential of these opportunities by following four key IRF operating principles.

- **Clearly delineate roles and responsibilities**: Appropriate delineation of roles and responsibilities promotes a clear understanding of who will be held accountable for specific tasks or duties such as authorizing and reviewing transactions, implementing controls over fund management, and helping ensure that related responsibilities are coordinated.
- **Build in flexibility to obtain customer input and meet customer needs:** Opportunities for customers to provide input about fund services, or voice concerns about needs, in a timely manner enable agencies to regularly assess whether customer needs are being met or have changed. This also enables agencies to prioritize customer demands and use resources most effectively, enabling them to adjust capacity to correspond to changes in the level of services demanded.
- **Ensure self-sufficiency by recovering the agency's actual costs**: Transparent and equitable pricing methodologies allow agencies to ensure that rates charged recover agencies' actual costs and reflect customers' service usage. If customers understand how rates are determined or changed including the assumptions used, customers can better anticipate potential changes to those assumptions, identify their effect on costs, and incorporate that information into budget plans.
- **Measure performance**: Performance measures that are aligned with strategic goals can be used to evaluate whether, and if so how, fund activities are contributing to the achievement of goals. A management review process comparing expected to actual performance allows agencies to review progress towards goals and potentially identify ways to improve performance.

Source: GAO-12-56. | GAO-16-477

Note: In addition to recovering their expense of operations, franchise funds can recover an amount for a reasonable operating reserve and up to 4 percent of annual operating income as a reserve for capital improvements.

To assess the management of each fund against these key operating principles, we reviewed the authorizing legislation and statutory authorities, charters and organizational charts, and budget documents and financial statements from fiscal years 2010 through 2015. We also analyzed the funds' interagency agreements with customers, as well as various pricing documents, to understand how both funds share pricing information with customers and make pricing information publicly available. In addition, we reviewed various documents related to the funds' performance, including performance metrics, performance and accountability reports, and customer satisfaction surveys. We used our work on customer service metrics and performance information to make judgments on the agencies' management of the funds.[6] We also met with FAA and Treasury budget and finance officials to learn about their roles and responsibilities for managing the ASFF and the TFF.

As part of assessing the funds' efforts to obtain customers' input and needs, we interviewed a sample of ASFF and TFF customers to obtain their perspectives on services they received, billing and payment methods, and communication with the funds' managers (see table 5 below). Our criteria for selecting customer agencies was to ensure a diversity of perspectives, attain views representative of the customer base, and to have customers with experience of a wide-range of franchise fund management practices and supported services. For both funds, we selected (1) the two customers that paid the most into the respective funds in fiscal year 2014, (2) one customer that paid an average or median amount into the respective funds in fiscal year 2014 compared to other customers, and (3) one customer (randomly selected) that purchased services for the first time in fiscal year 2015.[7] FAA and Treasury provided data showing the amount customers paid into the ASFF and the TFF, respectively in fiscal year 2014 and customer lists for fiscal year 2015. We found the data to be sufficiently reliable for the purpose of selecting customer agencies to interview.[8]

[6]GAO, *Managing for Results: Selected Agencies Need to Take Additional Efforts to Improve Customer Service*, GAO-15-84 (Washington, D.C.: Oct. 24, 2014).

[7]We selected one internal and one external customer that paid the most into the respective funds in fiscal year 2014. For example, for the ASFF, we selected one FAA and one non-FAA customer that paid the most into the fund in fiscal year 2014.

[8]To assess the reliability of the FAA and Treasury data showing the amount customers paid into the ASFF and the TFF respectively in fiscal year 2014, among other steps, we compared the amounts in the data to the amounts in the selected customer's interagency agreements.

Table 5: Selected Administrative Services Franchise Fund and Treasury Franchise Fund Customers Interviewed

Fund	Selected Customers
Administrative Services Franchise Fund	• Department of Transportation, Federal Aviation Administration Logistics Center • Department of Homeland Security, Customs and Border Protection • Department of Transportation, Pipeline and Hazardous Materials Safety Administration • Nuclear Regulatory Commission
Treasury Franchise Fund	• Department of the Treasury, Bureau of the Fiscal Service • Department of Housing and Urban Development • Merit Systems Protection Board • Department of Justice, Antitrust Division

Source: GAO. | GAO-16-477

For our second objective, to assess how federal agencies manage unexpended balances in select IRFs, for both the ASFF and TFF, we used our key questions for assessing balances in federal budget accounts, which are described in the text box below, as criteria.[9] We shared these key questions with FAA and Treasury prior to our detailed review.

Evaluating Unexpended Balances: A Framework for Understanding

In 2013, we identified the following questions for agencies and decision makers to consider when evaluating unexpended balances in federal budget accounts. Findings based on these questions can provide managers with important information about financial challenges and opportunities which may exist; in turn, this information may help guide more effective account and program management.

- What mission and goals is the account or program supporting?
- What are the sources and fiscal characteristics of the funding?
- What factors affect the size or composition of the unexpended balances?
- How does the agency estimate and manage unexpended balances?

Source: GAO-13-798. | GAO-16-477

To assess the management of unexpended balances in FAA's ASFF and Treasury's TFF against these key questions, we analyzed budgets from

[9] GAO, *Budget Issues: Key Questions to Consider When Evaluating Balances in Federal Accounts*, GAO-13-798 (Washington, D.C.: Sept. 30, 2013).

fiscal years 2010 through 2015 to identify trends and patterns in the unexpended balances. We found the budget data to be sufficiently reliable for the purpose of analyzing the composition of the unexpended balances in the funds.[10] We also asked FAA and Treasury officials to provide disaggregated amounts for the respective fund's unexpended balances. In addition, we also reviewed FAA and Treasury policies for managing reserves in the ASFF and the TFF. We interviewed FAA and Treasury budget and finance officials to learn about how they manage unexpended balances in the selected IRFs.

We conducted this performance audit from April 2015 to May 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[10]To assess the reliability of FAA and Treasury data showing unexpended balances in the ASFF and the TFF respectively, we compared the data in OMB MAX to the amounts published in the President's budget. We also held discussions with FAA and Treasury officials to determine how they calculate the amount of the unexpended balances in the ASFF and the TFF, respectively.

Appendix II: Comments from the Department of Transportation

U.S. Department of Transportation

Office of the Secretary of Transportation

Assistant Secretary for Administration

1200 New Jersey Avenue, SE
Washington, DC 20590

APR 21 2016

Heather Krause
Acting Director, Strategic Issues
U.S. Government Accountability Office
441 G Street NW
Washington, DC 20548

Ms. Krause:

The Federal Aviation Administration's (FAA) Franchise Fund (Fund) manages over $1 billion in assets and collects over $400 million in revenues annually, representing thousands of transactions and providing support to a wide range of Federal Departments, Agencies and International Governments. The Fund provides services to all Department of Transportation (Department) bureaus and administrations and numerous agencies external to the Department. The Fund consists of six lines of businesses (LOB). One LOB, the Enterprise Service Center, is one of the four Office of Management and Budget's designated federal shared service providers for financial services. Additional LOB offer highly specialized shared services not typically found in the federal shared service arena.

The Fund is committed to providing cost effective, quality service. All activities, whether specific to a service or indirectly related to a service, such as customer communication or public postings of information, are funded by the customer. As a result, the Fund is careful to expend resources only for efforts that provide a positive benefit to the customer.

Upon review of the draft report, the FAA concurs with all recommendations. We will provide a detailed response to each recommendation within 60 days of the final report issuance.

We appreciate the opportunity to comment on the GAO draft report. Please contact Madeline Chulumovich, Audit Relations and Program Improvement, at (202) 366-6512 with any questions or if GAO would like to obtain additional details about these comments.

Sincerely,

Jeff Marootian
Assistant Secretary for Administration

Appendix III: GAO Contact and Acknowledgments

GAO Contact

Heather Krause, (202) 512-6806 or krauseh@gao.gov.

Staff Acknowledgments

In addition to the contact name above, Janice Latimer, Assistant Director; Don Kiggins; Michelle Duren; and Justin Snover made major contributions to this report. Also contributing to this report were Steven Putansu, Michael Grogan, Donna Miller, and Lisette Baylor.

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