



Audit Report



OIG-15-038

Administrative Resource Center Operated Independently of Fiscal Service Funding

July 1, 2015

Office of
Inspector General

Department of the Treasury

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Abbreviations and Acronyms

ARC	Administrative Resource Center
Fiscal Service	Bureau of the Fiscal Service
GAO	Government Accountability Office
GSA	General Services Administration
HR	Human Resources
IAA	Interagency Agreement
IT	Information Technology
OMS	Office of Management Services
PRAB	Performance Reporting and Analysis Branch
SF-52	Standard Form, "Request for Personnel Action"
TFF	Treasury Franchise Fund
Treasury	Department of the Treasury

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July 1, 2015

Sheryl R. Morrow
Commissioner
Bureau of the Fiscal Service

This report presents the results of audit work related to the operational independence of the Bureau of the Fiscal Service's (Fiscal Service) Administrative Resource Center (ARC). Fiscal Service is a bureau within the Department of the Treasury (Treasury), funded by appropriations. ARC is organizationally situated within Fiscal Service and funded by fees that member agencies pay in exchange for services provided.

The objective of our audit was to determine whether sufficient controls exist to ensure ARC's operational independence from Fiscal Service's appropriated funding with respect to occupancy/physical space costs and employee details. To accomplish our objective, we interviewed Fiscal Service and ARC personnel and reviewed relevant documentation to gain an understanding of processes and identify controls over occupancy/physical space costs and employee details between Fiscal Service and ARC. We tested these controls on a sample basis to determine whether they were operating effectively during our audit period - fiscal year 2012. Appendix 1 provides a more detailed description of our objective, scope and methodology.

In brief, we found that sufficient controls were in place during fiscal year 2012 to ensure that ARC maintained operational independence from Fiscal Service's appropriated funding with

respect to occupancy/physical space costs and employee details. We have no recommendations. In a written response, which is included as Appendix 2, Fiscal Service management concurred with our conclusion.

Background

ARC, a shared service provider organizationally situated within Fiscal Service,¹ provides a full range of administrative services to various Federal agencies. ARC is physically located in Parkersburg, WV, Mineral Wells, WV, and Washington, DC. ARC's operations, with over 700 full time employees, shared four buildings with other operational components of Fiscal Service. Fiscal Service leased the buildings from the General Services Administration (GSA), and ARC paid Fiscal Service for the costs associated with the space in the building that it physically occupied.

As stated previously, the programs and operations for Fiscal Service are funded by appropriations.² ARC is a member of the Treasury Franchise Fund (TFF), which is funded by the fees customer agencies pay in exchange for the services that ARC provides.³

¹ Fiscal Service was established in October 2012 with the consolidation of the Bureau of the Public Debt and the Financial Management Service. The mission of Fiscal Service is to promote the financial integrity and operational efficiency of the U.S. Government through exceptional accounting, financing, collections, payment and shared services. Prior to the consolidation, ARC was a part of the Bureau of the Public Debt.

² According to the Government Accountability Office (GAO) *Budget Glossary*, an appropriation is the budget authority to incur obligations and to make payments from the Treasury for specific purposes. Appropriations do not represent cash actually set aside in the Treasury for purposes specified in the appropriation act; they represent amounts that agencies may obligate during the period of time specified in the respective appropriation acts.

³ According to 31 U.S.C. 322, note, the TFF is a franchise fund to be available without fiscal year limitation, for expenses and equipment necessary for the maintenance and operation of such financial and administrative support services as the Secretary [of the Treasury] determines may be performed more advantageously as central services. It also notes that the fund shall be reimbursed or credited with the payments, including advanced payments, from applicable appropriations and funds available to the Department of the Treasury and other Federal agencies for which such administrative and financial services are performed.

During fiscal year 2011 and fiscal year 2012, ARC collected revenue from customer agencies in the amount of approximately \$178.2 million and \$249.8 million, respectively. In those same years, ARC incurred expenses of approximately \$173.6 million and \$244.9 million, respectively. ARC's expenditures were primarily for personnel and benefits, contractual services, and equipment. The increases in fiscal year 2012 were primarily due to an increase in the number of customer agencies ARC serviced and the implementation of new information technology (IT) projects.

As of March 27, 2012, ARC provided services to 71 Federal customers consisting of 17 Treasury offices and bureaus and 54 non-Treasury agencies, including the National Aeronautics and Space Administration, the Social Security Administration, and the Department of Homeland Security.

The services that ARC provided to customer agencies included:

- Financial Management - processing accounting transactions, preparing financial statements, providing financial audit support, and budgeting services.
- Internet-based Procurement - acquisition support such as contract acquisitions, contract administration, and simplified acquisitions.
- Travel - travel document processing, travel management centers, Citibank Charge Card Program administration, and employee relocation.
- IT - complete system planning, technology support, shared systems, secure hosting, and IT Service Desk.
- Human Resources (HR) Management - personnel action processing and recordkeeping, pay and leave administration, staff acquisition and position classification, labor and employee relations, and personnel security.
- Investment Portfolio Management - investment accounts for approximately 230 investment funds that have statutory authority to invest in Treasury securities.

Audit Results

Occupancy Costs

Interagency Agreement

ARC relies on Fiscal Service to provide it with a number of resources. An interagency agreement (IAA) between Fiscal Service and ARC establishes the terms of this relationship. We reviewed the fiscal year 2012 IAA and noted that it was approved by ARC's Director of the Division of Franchise Services and Fiscal Service's Deputy Commissioner, Director of the Division of Financial Management and Chief Financial Officer. The IAA required ARC to reimburse Fiscal Service for approximately \$24 million in services including occupancy costs of \$9.3 million for ARC's use of space in three buildings that Fiscal Service leased from GSA in West Virginia and one in Washington, DC.⁴

We tested controls over the calculation of occupancy costs by reviewing occupancy agreements, space allocations and cost models prepared by the Fiscal Service Office of Management Services (OMS) and the Performance Reporting and Analysis Branch (PRAB).

Occupancy Agreements

In fiscal year 2012, ARC operated its business in four buildings shared with Fiscal Service - two office buildings

⁴ The fiscal year 2012 IAA between Fiscal Service and ARC covered services such as mail services, occupancy costs, and services from Fiscal Service's Office of Management Service (OMS), Office of the Commissioner, and Office of the Chief Counsel. Occupancy costs consist of direct and indirect costs such as rent, janitorial costs, landscaping costs, and labor costs for the OMS Facilities Management and Operations Division Director and staff. The fiscal year 2012 IAA included occupancy costs contingent on the relocation of occupants from the Washington, DC, location to another office building, also in Washington DC. However, the move from this office building did not occur in fiscal year 2012. As a result, the fiscal year 2012 IAA was amended during the 4th quarter to accurately reflect the occupancy costs, which decreased from \$9.3 million to \$7.5 million.

located on Avery and Third Street in Parkersburg, WV, one warehouse in Mineral Wells, WV, and one office building located on 9th Street, NW, Washington, DC.

Upon reviewing the occupancy agreements between Fiscal Service and GSA, we found that they were authorized by Fiscal Service's OMS Facilities Management Branch Manager and established Fiscal Service as the lessee of the buildings. According to the occupancy agreements, the two office buildings in Parkersburg had a total of 182,500 rentable square feet and 284,209 rentable square feet, respectively. The warehouse in Mineral Wells had a total of 63,500 rentable square feet, and the office building in Washington DC, had a total of 42,756 rentable square feet.

Allocation of Building Space between Fiscal Service and ARC

On a quarterly basis, Fiscal Service's OMS Facilities Project Manager reviewed the space in the buildings and updated the square footage occupied by each program office using floor plans.

Using the floor plans, we recalculated the square footage allocation on the fiscal year 2012 1st and 3rd Quarter Rent & Lease Activities Analysis spreadsheets prepared by Fiscal Service's OMS and PRAB. We noted minor errors in the square footage allocated for the office building located in Washington, DC. The errors did not have an impact on the occupancy costs noted in the fiscal year 2012 IAA; however, we did communicate them to management.

Also, while on site in West Virginia, we evaluated the reasonableness of the floor plans by touring the office buildings in Parkersburg and the warehouse in Mineral Wells. The office layout agreed to the floor plans. We also interviewed 45 employees and determined that their assigned space and functional responsibilities agreed to the floor plans.

Calculation of Occupancy Costs

Fiscal Service's PRAB used a cost model to calculate and allocate occupancy costs to ARC and other program offices for fiscal year 2012. The cost model included, for example, anticipated square footage, IT support costs, full time equivalents, and salaries and benefits. We validated cost model inputs and recalculated ARC's fiscal year 2012 occupancy costs using the Facilities Rent & Lease Activities Analysis spreadsheet, PRAB Cost Model Rent & Lease Activities Analysis spreadsheet, PRAB Cost Model Occupancy File, and Budgeted Direct and Indirect Costs. We found the occupancy costs for ARC were accurately calculated.

We also noted that the cost model was reviewed by management and that this review was documented with the signature of the Fiscal Service PRAB Manager on the Cost Model Review Checklist.

Employee Details between Fiscal Service and ARC

Fiscal Service and ARC employees had the opportunity to work for the other entity through employee details. A detail usually occurred when an employee was needed in a position for more than 30 days. In these cases, the Office of Personnel Management *Guide to Processing Personnel Actions* requires that the detail be documented on a Standard Form 52, "Request for Personnel Action" (SF-52). We performed testing to determine whether employee details between Fiscal Service and ARC were recorded in Treasury's HR information system,

HR Connect, and approved by the gaining manager and appropriate HR staff.⁵

Based on information provided by Fiscal Service from HR Connect, we determined that there were 54 employee details between Fiscal Service and ARC during fiscal year 2012. To test the completeness of this population, we asked the 45 employees interviewed during our allocation of building space testing questions about their knowledge of employee details within the organization and confirmed responses through the review of any SF-52s. We did not identify any unrecorded employee details through this test.

From the population of 54 employee details, we also randomly sampled 12 employees. By reviewing the SF-52 for each sampled employee, we determined that they were authorized to be detailed between Fiscal Service and ARC.

Conclusion

Based on the work that we performed, we concluded that there were sufficient controls in place to ensure that the occupancy costs for ARC's use of Fiscal Service's physical space were appropriately calculated and reflected in the IAA between ARC and Fiscal Service. In addition, we concluded that employee details between Fiscal Service and ARC were authorized and recorded in HR Connect. These controls facilitated the appropriate allocation of costs to the TFF and ARC's operational independence from Fiscal Service. We have no recommendations.

⁵ HR Connect is Treasury's human resource system that provides a broad range of applications, services, and other information to HR offices, employees, and managers. HR Connect allows employees to review employment information, update personal information, and manage leave. The system also assists supervisors in managing their human capital and use of organizational data for strategic decision-making. Additionally, supervisors are able to initiate paperless personnel actions and electronically route those actions for approval through HR Connect.

* * * * *

We appreciate the courtesies and cooperation extended by your staff as we inquired about these matters. Major contributors to this report are listed in Appendix 3. A distribution list for this report is provided as Appendix 4. If you have any questions, you may contact me at (202) 927-6345 or Renee Whittington, Audit Manager, at (202) 927-0362.

/s/
James L. Lisle, Jr.
Director, Fiscal Service Audits

Objective, Scope, and Methodology

Our objective was to determine whether sufficient controls exist to ensure the Administrative Resource Center's (ARC) operational independence from the Bureau of the Fiscal Service (Fiscal Service) appropriated funding with respect to occupancy/physical space costs and employee details.

In planning our audit work, we reviewed the Government Management Reform Act of 1994; the Omnibus Consolidated Appropriations Act of 1997; the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*; Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*; the Office of Personnel Management's *Guide to Processing Personnel Actions*; and the *HR Connect User Guide*. Also, we interviewed Fiscal Service and ARC officials to obtain an understanding of the audit work areas.

The scope of our audit work included controls over occupancy/physical space costs and employee details between Fiscal Service and ARC for the period of October 1, 2011, through September 30, 2012. Sample sizes were selected based on internal control guidance in accordance with Office of Management and Budget Circular A-123 *Management's Responsibility for Internal Control, Appendix A* and GAO-08-585G, *Financial Audit Manual* (July 2008), Section 450, Sampling Control Tests. The audit work did not include general and application controls over HR Connect, Treasury's human resource (HR) information system.

To accomplish our objective for occupancy/physical space costs, we:

- Interviewed the Deputy Commissioner and Director of the Division of Financial Management from Fiscal Service and the Director of the Division of Franchise Services from ARC to gain an understanding of the Interagency Agreement (IAA) between Fiscal Service and ARC which established ARC as the requesting agency and Fiscal Service as the servicing agency.

- Reviewed occupancy costs contained in the fiscal year 2012 IAA, agreed the occupancy costs to supporting occupancy calculations, and ensured the IAA provided by Fiscal Service to ARC was authorized.
- Interviewed the Office of Management Services (OMS) Facilities Management Branch Manager in Fiscal Service to gain an understanding of the occupancy agreements between Fiscal Service and General Service Administration which established Fiscal Service as the lessee of each building in which ARC shared building space.
- Reviewed each of the occupancy agreements in place during fiscal year 2012 for the buildings occupied by ARC which included Avery and Third Street in Parkersburg, WV, the warehouse in Mineral Wells, WV, and the office building on 9th Street, NW, Washington, DC, to ensure that the agreements were authorized and to verify Fiscal Service as the lessee.
- Interviewed the OMS Facilities Project Manager and the OMS Management Services Specialist in Fiscal Service to gain an understanding of the building space allocation between Fiscal Service and ARC.
- Tested the square footage allocation using the fiscal year 2012 1st and 3rd Quarter Rent & Lease Activities Analysis spreadsheets and floor plans for all of the office buildings and the warehouse. While on site in West Virginia, we tested the office layout through tours of office buildings in Parkersburg and the warehouse in Mineral Wells, and interviewed 45 employees located in these buildings to verify space assignments and functional responsibilities.
- Interviewed the Performance Reporting and Analysis Branch (PRAB) Lead Cost Accountant and the PRAB Manager in Fiscal Service to gain an understanding of the occupancy costs allocated to ARC by Fiscal Service.
- Tested the occupancy costs allocated to ARC by validating inputs to the fiscal year 2012 PRAB Cost Model and recalculating the occupancy costs. In addition, we ensured the Cost Model Review Checklist was authorized.

To accomplish our objective for employee details, we:

- Interviewed the following Fiscal Service personnel: HR Staffing and Classification Branch Manager, HR Staffing

Supervisor, Supervisory HR Specialist, Accounts Payable Branch Manager, and HR Specialist. We also interviewed a Supervisory Accountant in Fiscal Service, who received a detailed employee. The purpose of our interviews was to gain an understanding of employee details between Fiscal Service and ARC through approved Standard Form 52s, "Requests for Personnel Action."

- Tested a random sample of 12 detailed employees selected from the population of 54 employees detailed between Fiscal Service and ARC during fiscal year 2012 to ensure that the employee details were authorized. We tested the completeness of the population by interviewing 45 employees in ARC and Fiscal Service positions in the West Virginia buildings about their knowledge of employee details within the organization.

We performed our fieldwork from March 2012 through February 2014 at Fiscal Service in Parkersburg, WV, Mineral Wells, WV, and Washington, DC.

We conducted this performance audit 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusion on our audit objective.



DEPARTMENT OF THE TREASURY
BUREAU OF THE FISCAL SERVICE
WASHINGTON, DC 20227

June 8, 2015

Mr. James L. Lisle, Jr., CPA
Director, Fiscal Service Audit
Office of Inspector General
Department of the Treasury
740 15th Street, NW
Suite 6000
Washington, DC 20220

Dear Mr. Lisle:

Thank you for the opportunity to comment on the draft audit report entitled "ARC Separation." The objective of this audit was to determine whether sufficient controls exist to ensure the Administrative Resource Center's (ARC) operational independence from the Bureau of the Fiscal Service funding with respect to occupancy/physical space costs and employee details. We have carefully reviewed the draft report and concur with your assessment that sufficient controls were in place during fiscal year 2012 to ensure that ARC maintained its operational independence.

Sincerely,

Sheryl R. Morrow
Commissioner

Appendix 3
Major Contributors to the Report

Renee Whittington, Audit Manager

Ashley Smith, Auditor

Herb Addy, Auditor

Brigit Hoover, Referencer

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