



**U.S. OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS**

Final Audit Report

HUMAN RESOURCES SOLUTIONS' PRICING METHODOLOGIES

**Report Number 4A-HR-00-13-055
June 2, 2015**

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EXECUTIVE SUMMARY

Human Resources Solutions' Pricing Methodologies

Report No. 4A-HR-00-13-055

June 2, 2015

Why Did We Conduct The Audit?

The objective of our audit was to assess how Human Resources Solutions (HRS) develops their prices for products and services. We accomplished this by evaluating HRS's pricing models to determine if they were accurately recovering costs of products and services they provide.

What Did We Audit?

The Office of the Inspector General (OIG) has completed a performance audit of HRS's pricing methodologies. Our audit fieldwork was conducted from June 26 through November 20, 2014 at OPM headquarters, located in Washington, D.C.

What Did We Find?

We determined that HRS needs to strengthen its controls to ensure that its fees charged to customer agencies are accurately recovering costs of products and services. Our audit identified two areas requiring improvement, as follows:

1. Pricing Methodologies Were Not Fully Supported
 - The Resource Management Group of HRS did not have documented policies and procedures outlining how they developed their pricing methodologies; was unable to explain how they allocated the Cost Pool 4 (expense) amounts to HRS programs; and allocated \$708,000 more than the Cost Pool 4 amount shown on the support provided.
 - The USA Learning, Staff Acquisition, Training and Management Assistance Program (TMAP), and Human Resource Strategy program areas did not have sufficient documentation to support their pricing methodologies.
2. Prices for Fiscal Years (FY) 2013 and 2014 Services Were Not Fully Supported
 - The Administrative Law Judges program area provided support that did not directly relate to most of the expense categories used in Cost Pools 1 and 2 for FY 2013.
 - The TMAP, Western Center/Custom Solutions, Eastern Center/Training Delivery, Federal Executive Branch, and Assessment and Evaluation Branch program areas did not have sufficient documentation to support prices charged to customers in FY 2014.



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ABBREVIATIONS

AEB	Assessment and Evaluation Branch
ALJ	Administrative Law Judges
ECTD	Eastern Center/Training Delivery
FEI	Federal Executive Institute
FMM	Financial Management Manual
FY	Fiscal Year
GAO	U.S. Government Accountability Office
GS	General Schedule
HR	Human Resource
HRS	Human Resources Solutions
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
RMG	Resource Management Group
SICFG	Standards for Internal Control in the Federal Government
TMAP	Training and Management Assistance Program
U.S.C.	United States Code
WCCS	Western Center/Custom Solutions

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I. BACKGROUND

This final audit report details the findings, conclusions, and recommendations resulting from our performance audit of Human Resources Solutions' (HRS) pricing methodologies. The audit was performed by the U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as authorized by the Inspector General Act of 1978, as amended.

This audit was initiated and conducted based on the results of the HRS risk assessment performed in fiscal year (FY) 2013 by OIG's Internal Audits Group. The purpose of the risk assessment was to understand HRS's operations and determine areas of high risk. We identified HRS's pricing methodologies as a high-risk activity because a majority of HRS program groups rely upon a costing tool to determine the price structure, or fee, charged to its customer agencies. HRS is required by statute to set the price of its products at a level that enables it to recover the actual costs in administering the program. Consequently, it was important to ensure that the pricing structure used is accurate. Our assessment discovered instances where program groups were not able to provide full supporting documentation for their pricing methodologies.

Human Resources Solutions

HRS provides products and services that assist Federal agencies in achieving their missions. This is done by helping agencies provide human resource solutions to develop leaders, develop a "high quality" sector workforce, and transform into high performing organizations. HRS also assists agencies in attracting and acquiring specific talent.

HRS operates under OPM's Revolving Fund Authority, 5 United States Code (U.S.C.) 1304 (e)(1). This allows HRS to perform personnel management services at an agency's request. The requests are formalized through an interagency agreement.¹ As a revolving fund program, HRS recovers costs of operations by managing agency reimbursable agreements from Federal customers. Specifically, the Revolving Fund Authority states:

“The fund shall be credited with—

(A) advances and reimbursements from available funds of the Office or other agencies, or from other sources, for those services and supplies provided at rates

¹ An interagency agreement consists of a standard form 7600A and a 7600B. The 7600A is the partnership section of the interagency agreement. It sets the relationship between the agencies by identifying the agencies entering into the agreement, the authority permitting the agreement, and the agreement action, period, and type. The 7600B is the funding section that creates a fiscal obligation between the Requesting Agency and Servicing Agency. The 7600B identifies the specific Requesting Agency requirements and identifies the roles and responsibilities for both trading partners to ensure effective management of the order and use of the related funds.

estimated by the Office as adequate to recover expenses of operations (including provision for accrued annual leave of employees and depreciation of equipment)”

HRS has variations in the costing methodologies² and pricing structures for the different services it provides to Federal agencies, which are described below.

Resource Management Group

The Resource Management Group (RMG) is the support function under HRS. RMG provides comprehensive, direct, corporate level financial and budget support to HRS’s leadership and senior program managers. The primary function of RMG is to report the financial status of HRS’s program offices to HRS, and allocate costs through a monthly Financial Snapshot Report.³ The Financial Snapshot Report is a collection of financial data obtained from OPM’s Consolidated Business Information Systems’ *Oracle Business Intelligence Enterprise Edition Report* and HRS project and labor codes⁴.

RMG models their Financial Snapshot Report to reflect HRS’s pricing methodology framework. RMG does not create pricing; however, the Financial Snapshot Report has a great impact on how prices are determined by HRS’s program groups.

HRS’s expenses are labeled as cost pools, of which they have four:

- Cost pool 1 is for direct expenses incurred by the program that are directly chargeable to the customer for the product or service received. Examples include: direct labor, supplies and materials, and costs for contractors providing deliverable services.
- Cost pool 2 is for indirect expenses incurred by the program and are indirectly charged to the customer for the service or product received. Examples are employee training, leave, contractors that provide service to the program rather than the customer, and facilities’ costs.
- Cost pool 3 is for indirect expenses incurred by HRS as a general cost of operating as a whole. Indirect expenses/overhead includes costs to cover HRS support, management and headquarter salaries, and contracts for services provided to all of HRS.

² OPM’s Financial Management Manual defines costing methodology as a formal process for accumulating costs and assigning costs and should include the full cost of resources that directly or indirectly contribute to the production of the goods/services. The methodologies should be appropriate for the respective area and should be consistently implemented and followed.

³ The Financial Snapshot Report is an Excel Spreadsheet.

⁴ HRS project and labor codes are created by RMG. RMG assigns customized project codes to help them allocate project costs to HRS programs. Labor codes are for salaries and benefits.

- Cost pool 4 is for OPM's indirect expenses which are expenses incurred by OPM as a general cost of operating OPM as a whole. OPM's indirect expenses include OPM information technology contracts and salaries of OPM's central human resource employees. Cost Pool 4 is assessed by the Chief Financial Officer and provided to RMG.

Retained Earnings is not a cost pool; however, it is included in RMG's Financial Snapshot Report. RMG created a cost methodology, based on five scenarios⁵, to allocate Cost Pools 3 and 4 to each program group within HRS.

Assessment and Evaluation Branch

The Assessment and Evaluation Branch (AEB) provides organizational assessments, customer surveys, program evaluations, competency models, GAP analysis⁶, and leadership assessment services to Federal agencies.

AEB's prices are based on consulting rates and estimated hours to complete their services. The consulting rates for FY 2014 were determined in the fourth quarter of FY 2013 using the prior year's salaries and benefits.

The FY 2014 hourly consulting rates were:

- Branch Manager (General Schedule (GS) 15) = \$300
- Senior Psychologist (GS 14) = \$265
- Expert Psychologist (New GS 14 and high tenure GS 13) = \$225
- Staff Psychologist (GS 13 and high tenure GS 12) = \$200
- Psychologist (GS 5 through 12) = \$165
- Psychologist Tech = \$100
- Student Psychologist = \$130

Eastern Center/Training Delivery

The Eastern Center/Training Delivery (ECTD) is a leadership development training facility. They offer open enrollment, single agency, and online/blended courses, leadership assessments, coaching, Leadership Education and Development Certificates, and management conference services.

⁵ RMG's five scenarios are methods of allocating Cost Pool 3 and 4 to HRS programs. Cost Pools 3 and 4 are allocated to HRS's programs based on the expenses and revenue of the program.

⁶ A GAP analysis is the comparison of actual performance with potential performance.

When generating pricing for customer agencies, ECTD develops single customer agency and multiple customer agency spreadsheets to document the direct costs, indirect costs, and fees associated with the services rendered for that given year. All costs associated with the project are individually labeled and calculated within the spreadsheets. The spreadsheets help ECTD monitor the costs during the course of the project and to see if the prices provided to the customer recovers all costs accurately. ECTD established their FY 2014 prices for their customer agencies by analyzing the spreadsheets from previous fiscal years.

Federal Executive Institute

The Federal Executive Institute (FEI) is a leadership development training facility that provides three separate lines of business: (1) Leadership for a Democratic Society, (2) open enrollment courses, and (3) customized courses and executive coaching.

When generating pricing for customer agencies, FEI develops excel spreadsheets to document the direct costs, indirect costs, and fees associated with the services rendered for that given year. All costs associated with the project are individually labeled and calculated within the spreadsheets. The spreadsheets help FEI monitor the costs during the course of the project and to see if the price provided to the customer recovers costs accurately. FEI established their FY 2014 prices for their customer agencies by analyzing spreadsheets from previous fiscal years.

Human Resource Strategy

Human Resource (HR) Strategy provides workforce planning, performance management, organizational design, and position/classification services to Federal agencies.

HR Strategy's prices are based on consulting rates and estimated hours to complete their services. The consulting rates are determined using prior year's salaries and benefits and an overlay cost⁷. HR Strategy estimates the hours it takes to complete their products and services for the year. The estimated hours are set the summer before the fiscal year starts and are based on historical information from prior years. HR Strategy uses monthly billing spreadsheets for each of their three solution groups: Organizational Design and Position Classification, Workforce and Succession Planning, and Performance Management to track the actual hours and labor expenses billed to a project to help them determine whether their estimates and assumptions need to be updated in the following year.

The FY 2014 billing rate structure consisted of the following five tiers:

- GS 7 through 9 = \$140 per hour
- GS 11 = \$165 per hour

⁷ The overlay cost is made up of Cost Pools 2, 3, and 4.

- GS 12 = \$185 per hour
- GS 13 = \$205 per hour
- GS 14 and 15 = \$225 per hour

Staff Acquisition

Staff Acquisition provides recruitment services, customized human resource training, human resource technical training, and customized examining and assessment solutions to Federal agencies.

Annually, Staff Acquisition uses a *Pricing Analysis* spreadsheet to perform the calculations needed for its inputs and to develop the prices for their products and services. The prices that were developed in the pricing analysis spreadsheet were transferred to Staff Acquisition's pricing guide, titled *Human Resources Solution Fiscal Year 2014 Pricing Guide for Examining, Training, and Other Staff Acquisition Services*, and which communicates prices to customers.

Training and Management Assistance Program

The Training and Management Assistance Program (TMAP) provides assisted acquisition services in the areas of human capital strategy, learning management systems, recruitment and branding, and employee training solutions to Federal agencies.

TMAP assesses a management fee to the requesting agencies for providing its assisted acquisition services. Based on the amount of the contract cost, which is provided by the selected vendor, a rate from the management fee structure is used to calculate the management fee. The management fee is then added to the contract cost to determine the total amount that will be charged to the requesting agency.

The FY 2014 management fee structure consisted of the following seven tiers:

- Less than \$250,000 = 12 percent
- \$250,000 to \$749,999 = 10 percent
- \$750,000 to \$999,999 = 8 percent
- \$1.0 to \$4.99 million = 6 percent
- \$5.0 to \$9.99 million = 4 percent
- \$10.0 to \$19.99 million = 3 percent
- \$20 million and over = 2.5 percent

Within the management fee structure, TMAP also has the ability to apply exceptions when deemed necessary. When exceptions are applied, they should be approved by the Vendor Management Branch Chief and documented in the project file.

USA Learning

USA Learning is the Federal government's online education and training platform. The program has two business lines: Learning Management System (LMS) and the Knowledge Portal. LMS provides "off-the-shelf" training to customer agencies. Knowledge Portal is an open-source tool that allows small agencies to operate in a shared environment, reducing costs of hosting, helpdesk, and the development and implementation of enhancements customized to the customer agencies.

For FY 2014, USA Learning charged customer agencies a fee of 10 percent of the direct costs associated with a project for LMS, and 15 percent of the direct costs associated with a project for Knowledge Portal. These fees are expected to cover all expenses to operate USA Learning.

Western Center/Custom Solutions

The Western Center/Custom Solutions (WCCS) program area provides custom leadership development and training solutions for the Federal government.

Their primary focus is providing customized training for single agencies. When generating pricing for customer agencies, WCCS develops a *Custom Costing Tool* and *Pricing Grid for Costing Tool*⁸ (costing tools) for the purpose of documenting the direct costs, indirect costs, and fees associated with the services rendered during FY 2014. All costs associated with their project are individually labeled and calculated within the costing tools. After consulting with the customer agency for their requirements, direct program costs are manually input into the costing tools. The indirect costs, combined with the direct costs for the project, are then calculated to create the price charged to the customer agency.

Administrative Law Judges

The Administrative Law Judges (ALJ) is a program offered under HRS that has sole authority for administering, planning and directing nationwide recruitment, examination, and employment for ALJs throughout the Federal government.⁹ ALJs ensure fairness in administrative proceedings for Federal government agencies.

⁸ The *Custom Costing Tool* and *Pricing Grid for Costing Tool* are Excel spreadsheets.

⁹ 5 U.S.C. § 1104(a)(2) delegated OPM authority over the ALJ program and mandates that OPM develop and administer the ALJ examination.

The amount Federal agencies are required to reimburse OPM is calculated by taking the estimated total costs of the ALJ program and assessing each agency a share of the total costs, based on the number of ALJs the agency employs.¹⁰ ALJ bills their customers annually in the fourth quarter of the fiscal year. They are able to use actual costs for the first through third quarters of the year when billing customers; however, costs are projected for the fourth quarter.

¹⁰ 5 Code of Federal Regulations § 930.203 describes how agencies will be charged for the ALJ program.

II. OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to assess how HRS develops their prices for products and services. We accomplished this by evaluating HRS's pricing models to determine if they were accurately recovering costs of products and services they provide. The recommendations included in this final report address this objective.

Scope and Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards as established by the Comptroller General of the United States. These 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 objective.

The scope of our audit covered the price methodologies for 10 HRS program areas. Specifically:

- The scope for the following nine HRS program areas, covered the price methodologies used from October 1, 2013 to September 30, 2014:
 1. Resource Management Group
 2. Assessment and Evaluation Branch
 3. Eastern Center/Training Delivery
 4. Federal Executive Institute
 5. Human Resource Strategy
 6. Staff Acquisition
 7. Training and Management Assistance Program
 8. USA Learning
 9. Western Center/Custom Solutions
- The scope for the Administrative Law Judges program covered the FY 2013 price per judge used to bill Federal agencies.

We performed our audit fieldwork from June 26 through November 20, 2014 at the OPM headquarters, located in Washington, D.C.

To accomplish our audit objective noted above, we:

- Interviewed HRS personnel;
- Assessed the reasonableness of the costing tools used by the HRS programs to develop prices; and
- Sampled and tested the accuracy of the program areas' prices charged to customers.

In planning our work and gaining an understanding of HRS's pricing methodologies, we considered, but did not rely on, HRS's internal control structure to the extent necessary to develop our audit procedures. These procedures were mainly substantive in nature. We gained an understanding of management procedures and controls to the extent necessary to achieve our audit objective. The purpose of our audit was not to provide an opinion on internal controls, but merely to evaluate controls over the processes that were included in the scope of our audit.

Our audit included such tests and analysis of HRS's supporting documentation provided for their pricing methodologies and other procedures as we considered necessary under the circumstances. The results of our review and tests indicate that with respect to the items tested, HRS needs to strengthen its controls to ensure that fees charged to customer agencies are accurately recovering costs of products and services.

In conducting the audit, we relied to varying degrees on computer-generated data. Due to the nature of the audit, we did not verify the reliability of the data generated by the systems involved. However, nothing came to our attention during our audit testing utilizing the computer-generated data to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objective.

In performing our audit work, we used Microsoft Excel to randomly select samples for testing in order to accomplish our audit objective. Our sampling methodologies consisted of the following projects that started in FY 2014:

- 15 out of 68 projects for AEB;
- 6 out of 285 projects for ECTD;
- 9 out of 50 projects for FEI;
- 15 out of 57 projects for HR Strategy;
- 12 out of 36 projects for Staff Acquisition;
- 6 out of 51 projects for TMAP; and
- 25 out of 238 projects for WCCS.

The samples selected during our review were not statistically based. Consequently, the results from our samples were not projected to the populations.

The preliminary results of our audit were discussed with HRS officials at an exit conference held on November 20, 2014, and were presented in a draft audit report dated March 19, 2015. HRS's comments in response to the draft report were considered in preparing our final report and are included as an Appendix.

III. AUDIT FINDINGS AND RECOMMENDATIONS

For the areas described below, we determined that HRS needs to strengthen its controls to ensure that its fees charged to customer agencies are accurately recovering costs of products and services. For those program areas not specifically identified in a finding below, it was determined that their process was adequate for that particular objective.

1. Pricing Methodologies Were Not Fully Supported

While assessing the reasonableness of the costing tools that were used to develop FY 2014 prices, we determined that pricing methodologies, including cost inputs, were not fully supported.

RMG did not have documented policies and procedures outlining how to prepare the Financial Snapshot Report. The Financial Snapshot Report is the document used by the program areas to assist in developing their pricing methodologies. We were also unable to determine how RMG allocates the Cost Pool 4 amounts to HRS programs. Specifically, we could not determine how “Full-Time Employees” were used when calculating Cost Pool 4 allocation amounts. Lastly, RMG used an incorrect amount for Cost Pool 4 to allocate costs to the programs. The amount used was \$708,000 more than the amount shown on the documentation provided. HRS stated that the difference was due to indirect rent; however, no supporting documentation was provided.

In addition, we found that USA Learning, Staff Acquisition, TMAP, and HR Strategy did not have sufficient documentation to support their pricing methodologies. Specifically:

- USA Learning provided us with a memorandum explaining the concept behind their pricing methodologies; however, no financial data could be produced to support the methodology described in their memorandum.
- Staff Acquisition generally documented their costing calculations; however, they could not provide documentation to support the use of a 40 percent employee benefit rate that was used.
- TMAP provided their 2012 sensitivity analysis to support the methodology used to develop their management fee structure, which outlined their market research, assumptions, and breakeven point to cover their projected costs for FY 2012. However, they could not provide documentation to support the data used in the sensitivity analysis. The results in the sensitivity analysis did not specifically break out a management fee structure and we were unable to determine how the analysis supported the FY 2014 fee structure.

- HR Strategy’s salary amounts used on their three billing spreadsheets, which are used in the methodology to determine their consulting rates,¹¹ did not agree to supporting documentation. In addition, they could not provide support for the calculation of their FY 2014 tiered billing rates.¹² Specifically, we were not provided the formulas and the supporting documentation used for the tiered billing rates.

Details of our review were provided to HRS separate from this report.

Support for HRS Pricing Methodologies Not Maintained

5 U.S.C. Section 1304(e)(3)(A) states that customers must reimburse HRS “for those services and supplies provided at rates estimated by the Office as adequate to recover expenses of operation”

OPM’s *Financial Management Manual (FMM)*, Chapter 7, states “The RF [Revolving Fund] is required to operate on a break-even basis over a reasonable period of time by charging users for allowable costs as established under OPM Special Authority and other Federal authorities. The RF will ensure that billing rates only recover allowable costs and are adjusted at least annually to eliminate any surplus. However, if the RF accumulates a surplus for the period covered this represents the Federal share of billings claimed for reimbursement, the RF needs to adjust billing rates to eliminate surpluses, or if the inverse is true, and a deficit occurs, billings need to be adjusted to recapture lost previous under billings.”

According to HRS’s *Pricing Methodology*, dated August 6, 2013, each pricing methodology should follow the basic framework. Relevant steps include:

- “Each price should be based on expenses for that solution ... the total projected expenses should be apportioned out based on what percentage of expenses each product or service generates.”
- “Make adjustments to unit pricing if appropriate ... it is appropriate to adjust unit pricing to reflect lower costs resulting from economies of scale. When adjustments to unit pricing are made the rationale and calculations should be documented and the adjusted pricing structure should be applied uniformly to federal customers.”
- “Review and adjust if necessary ... adjustments based on more qualitative factors rather than quantitative factor should be accounted for. However, deviations should be explained and justified.”
- “Document the results ... constant evaluation of past data to better inform future decisions ... should maintain a database of expenses, units of service provided, prices,

¹¹ Consulting rates are based off of prior year’s salaries and benefits and an overlay cost that consists of Cost Pools 2, 3, and 4.

¹² FY 2014 tiered billing rates are the rates used to charge HR Strategy’s customers.

and revenue calculations. Any adjustment made as a result of analysis of the data should also be documented in order to preserve a history for future reference.”

The U.S. Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government (SICFG)* states that, “Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administration policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.”

GAO’s *SICFG* also states that “Control activities are the policies, procedures, techniques and mechanisms that enforce management’s directives ... Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation.” Examples of control activities are: reviews by management at the functional or activity level, control over information processing, proper execution of transactions and events, and appropriate documentation of transactions and internal control.

If there is no documented guidance regarding the process for creating RMG’s Financial Snapshot Report, no documented process to allocate their Cost Pool 4 amounts, and support for pricing determinations are not maintained, then there is no assurance that the costs being allocated to HRS programs are accurate. This could result in HRS not properly pricing its services charged to customer agencies, which could lead to customer agencies being under- or over-charged.

Recommendation 1

We recommend that HRS develop policies and procedures for creating the monthly Financial Snapshot Report by RMG. The policies and procedures should include a discussion of documentation retention, underlying assumptions, and the methodology used to develop and allocate the cost pools.

HRS’s Response:

“HRS does not concur with this recommendation. While HRS agrees that methodology for financial management reporting should be documented, the underlying issue will only be resolved by developing a standardized report from the financial system of record [Consolidated Business Information Systems] (CBIS). The Monthly Financial Snapshot Report is an internal ad-hoc management execution report only intended to close the gap between reports currently

available from the CBIS financial system of record and HRS's financial management reporting requirements. The Monthly Financial Snapshot Report is formatted as a spreadsheet, and while the formulas in each cell demonstrate the underlying methodology, this format is not conducive to documenting every cell's calculation in text format.

HRS agrees that the requirements for reporting this critical financial information should be fully documented. HRS has requested a standard report be developed in the CBIS financial system of record containing all data points and cost allocations required to successfully manage reimbursable product lines. Numerous discussions have taken place on this topic, and HRS fully supports working with the Office of the Chief Financial Officer's CBIS Team on the development of a standard report to eliminate the need for the ad-hoc Monthly Financial Snapshot Report.”

OIG Comment:

Based on HRS’s proposed corrective action plan to eliminate the Monthly Financial Snapshot Report and implement a standard CBIS report, policies and procedures are still needed that include a discussion of documentation retention and any underlying assumptions of the data points and cost allocations.

Recommendation 2

We recommend that HRS develop policies and procedures for the determinations of fees charged by its program areas to customer agencies. The policies and procedures should include a discussion of document retention, underlying assumptions, and the methodology used to determine its rates.

HRS’s Response:

HRS concurs with this recommendation.

“we agree that we need to strengthen practices related to the review and retention of documentation supporting pricing calculations.

HRS's Pricing Methodology document provides guidelines for pricing calculations to ensure customers are accurately charged for the services provided. Billing processes and systems established in cooperation with the OCFO ensure customers are billed on an accurate and timely basis. While the pricing methodology established by HRS is followed by each of the practice areas, complete supporting documentation has not been maintained consistently. As

recommended, we will develop policies and procedures to formalize the review process and standardize the retention of supporting documentation and underlying assumptions.”

OIG Comment:

In addition to the corrective actions outlined by HRS, they should also ensure that their policies and procedures include the methodology used to determine the rates they charge customers for the services they provide.

Recommendation 3

We recommend that HRS strengthen their internal controls to ensure that the inputs used in HRS’s pricing calculations are properly reviewed, approved, and documented.

HRS’s Response:

HRS concurs with this recommendation.

“HRS will formalize an annual review process to ensure each practice area is adhering to HRS’ guidelines and maintaining appropriate documentation. We will also train staff on establishing and maintaining accurate and thorough documentation of pricing calculations, supporting documentation and underlying assumptions.”

2. Prices for Fiscal Years 2013 and 2014 Services Were Not Fully Supported

We found that ALJ did not have sufficient documentation to support prices charged to customers in FY 2013. Specifically, ALJ provided documents to support Cost Pools 1 and 2 for FY 2013; however, we were unable to determine how the documents supported 24 out of 25 of the expense categories used in Cost Pools 1 and 2.

In addition, we found that TMAP, WCCS, ECTD, FEI and AEB did not have sufficient documentation to support prices charged to customers in FY 2014. Specifically:

- Three out of 15 AEB projects sampled had costs that were inconsistently rounded and there was no documentation to support the rounding methodology. In addition, 5 of the 15 AEB projects sampled used estimated costs that were not supported in the price development.

**Prices for FY 2013
and 2014 Services
were Not
Supported**

- One out of six TMAP projects sampled did not have documentation to support the project costs (i.e., costing tools and interagency agreements). TMAP stated that they created this project in error. TMAP provided a Consolidated Business Information System screenshot that stated the project is "in progress"; however, there was no confirmation that the project was cancelled.
- Two out of 25 WCCS projects sampled did not have documentation (i.e., costing tools and interagency agreements) to support how the projects' pricing was determined. In addition, 15 out of 25 WCCS projects sampled did not have documentation to support all the inputs in the costing tools which were used to develop the FY 2014 prices.
- Three out of six ECTD projects sampled did not have documentation to support the Materials and Printing costs used in the FY 2014 costing tools.
- Three out of nine FEI projects sampled did not have documentation (i.e., costing tools and interagency agreements) to support how the projects' pricing was determined. In addition, six out of nine FEI projects sampled did not have support for five of the inputs in the costing tools which were used to develop the FY 2014 prices.
- We were unable to trace the FY 2014 developed prices from the costing tools to the actual prices charged to the customer agencies for four out of six ECTD projects sampled and three out of nine FEI projects sampled. Specifically, interagency agreements that were provided as support for the actual prices charged covered multiple projects; however, there was no way to identify how these projects related to the interagency agreements provided.

Details of our review were provided to HRS separate from this report.

5 U.S.C. Section 1304(e)(3)(A) states that customers must reimburse HRS "for those services and supplies provided at rates estimated by the Office as adequate to recover expenses of operation"

OPM's FMM, chapter 7, states "The RF [Revolving Fund] is required to operate on a break-even basis over a reasonable period of time by charging users for allowable costs as established under OPM Special Authority and other Federal authorities. The RF will ensure that billing rates only recover allowable costs and are adjusted at least annually to eliminate any surplus. However, if the RF accumulates a surplus for the period covered this represents the Federal share of billings claimed for reimbursement, the RF needs to adjust billing rates to eliminate surpluses, or if the inverse is true, and a deficit occurs, billings need to be adjusted to recapture lost previous under billings."

According to HRS's *Pricing Methodology*, dated August 6, 2013, each pricing methodology should follow the basic framework. Relevant steps include:

- “Each price should be based on expenses for that solution ... the total projected expenses should be apportioned out based on what percentage of expenses each product or service generates.”
- “Make adjustments to unit pricing if appropriate ... it is appropriate to adjust unit pricing to reflect lower costs resulting from economies of scale. When adjustments to unit pricing are made the rationale and calculations should be documented and the adjusted pricing structure should be applied uniformly to federal customers.”
- “Review and adjust if necessary ... adjustments based on more qualitative factors rather than quantitative factor should be accounted. However, deviations should be explained and justified.”
- “Document the results ... constant evaluation of past data to better inform future decisions ... should maintain a database of expenses, units of service provided, prices, and revenue calculations. Any adjustment made as a result of analysis of the data should also be documented in order to preserve a history for future reference.”

GAO's *SICFG* states that, “Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administration policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.”

GAO's *SICFG* also states that, “Control activities are the policies, procedures, techniques and mechanisms that enforce management's directives ... Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation.” Examples of control activities are: reviews by management at the functional or activity level, control over information processing, proper execution of transactions and events, and appropriate documentation of transactions and internal control.

As a result of HRS not having proper supporting documentation for the pricing of its program areas, customer agencies may be under- or over-charged. In addition, since we cannot determine if the program areas' prices of their projects are reasonably related to their costs, HRS may not be properly pricing its services charged to their customer agencies.

Recommendation 4

We recommend that HRS develop policies and procedures that include a discussion of documentation retention for the methodology and applicable supporting documents used to determine its prices charged to customer agencies.

HRS's Response:

HRS concurs with this recommendation.

“Improvement to retention policies and procedures related to pricing calculations would be both appropriate and beneficial. HRS will formalize a document management plan to support our pricing methodology, including data or other files used to calculate prices. This will include a standardized naming system, folders, and location for documentation retention purposes. We will also train staff to ensure they possess adequate knowledge of documentation retention policies and procedures.”

Recommendation 5

We recommend that HRS strengthen their internal controls to ensure that projects are properly reviewed and approved to prevent projects created in error.

HRS's Response:

HRS concurs with this recommendation.

“System controls are currently in place to prevent any charges, revenues, or other transactions against any projects once a project is identified as an error in data entry; however, we are not able to show the project as "Canceled" in the system of record (CBIS). HRS is working with the Office of Chief Financial Officer's CBIS Team to resolve this issue.”

IV. MAJOR CONTRIBUTORS TO THIS REPORT

INTERNAL AUDITS GROUP

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Human Resources
Solutions

APPENDIX
Received on April 17, 2015

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

MEMORANDUM FOR:

[REDACTED]
Group Chief, Internal Audits Group

FROM:

[REDACTED]
Deputy Associate Director, Center for Management Services

SUBJECT:

Draft Report on the Audit of Human Resources Solutions'
Pricing Methodologies (Report No. 4A-HR-00-13-055)

Thank you for providing us the opportunity to respond to the Office of the Inspector General (OIG) draft report, Audit of Human Resources Solutions' Pricing Methodologies (Report No. 4A-HR-00-13-055).

We recognize that even the most well run programs benefit from external evaluations and we appreciate your input as we continue to enhance our programs. Our responses to your recommendations are provided below and a technical comment is included as a footnote.¹

Recommendation 1: We recommend that HRS develop policies and procedures for creating the monthly Financial Snapshot Report by HRS' Resource Management Group (RMG). The policies and procedure should include a discussion of documentation retention, underlying assumptions and the methodology used to develop and allocate the cost pools.

Management Response to Recommendation 1:

HRS does not concur with this recommendation. While HRS agrees that methodology for financial management reporting should be documented, the underlying issue will only be resolved by developing a standardized report from the financial system of record (CBIS). The Monthly Financial Snapshot Report is an internal ad-hoc management execution report only intended to close the gap between reports currently available from the CBIS financial system of record and HRS' financial management reporting requirements. The Monthly Financial Snapshot Report is formatted as a spreadsheet, and while the formulas in each

[REDACTED]
Footnote #1 Redacted by OIG. Not relevant to Final Report.

cell demonstrate the underlying methodology, this format is not conducive to documenting every cell's calculation in text format.

HRS agrees that the requirements for reporting this critical financial information should be fully documented. HRS has requested a standard report be developed in the CBIS financial system of record containing all data points and cost allocations required to successfully manage reimbursable product lines. Numerous discussions have taken place on this topic, and HRS fully supports working with the Office of the Chief Financial Officer's CBIS Team on the development of a standard report to eliminate the need for the ad-hoc Monthly Financial Snapshot Report.

Recommendation 2: We recommend that HRS develop policies and procedures for the determinations of fees charged by its program areas to customer agencies. The policies and procedures should include a discussion of documentation retention, underlying assumptions, and the methodology used to determine its rates.

Management Response to Recommendation 2:

HRS concurs. While HRS has appropriate controls in place to ensure that the fees charged by program areas to customer agencies accurately recover the costs of products and services provided, we agree that we need to strengthen practices related to the review and retention of documentation supporting pricing calculations.

HRS' Pricing Methodology document provides guidelines for pricing calculations to ensure customers are accurately charged for the services provided. Billing processes and systems established in cooperation with the OCFO ensure customers are billed on an accurate and timely basis. While the pricing methodology established by HRS is followed by each of the practice areas, complete supporting documentation has not been maintained consistently. As recommended, we will develop policies and procedures to formalize the review process and standardize the retention of supporting documentation and underlying assumptions.

Recommendation 3: We recommend that HRS strengthen their internal controls to ensure that the inputs used in HRS's pricing calculations are properly reviewed, approved, and documented.

Management Response to Recommendation 3:

HRS concurs. Again, while the pricing methodology established by HRS is followed by each of the practice areas, complete supporting documentation has not been maintained consistently. HRS will formalize an annual review process to ensure each practice area is adhering to HRS' guidelines and maintaining appropriate documentation. We will also train staff on establishing and maintaining accurate and thorough documentation of pricing calculations, supporting documentation and underlying assumptions.

Recommendation 4: We recommend that HRS develop policies and procedures that include a discussion of documentation retention for the methodology and applicable supporting documents used to determine its prices charged to customer agencies.

Management Response to Recommendation 4:

HRS concurs. Improvement to retention policies and procedures related to pricing calculations would be both appropriate and beneficial. HRS will formalize a document management plan to support our pricing methodology, including data or other files used to calculate prices. This will include a standardized naming system, folders, and location for documentation retention purposes. We will also train staff to ensure they possess adequate knowledge of documentation retention policies and procedures.

Recommendation 5: We recommend that HRS strengthen their internal controls to ensure that projects are properly reviewed and approved to prevent projects created in error.

Management Response to Recommendation 5:

HRS concurs. System controls are currently in place to prevent any charges, revenues, or other transactions against any projects once a project is identified as an error in data entry; however, we are not able to show the project as "Canceled" in the system of record (CBIS). HRS is working with the Office of Chief Financial Officer's CBIS Team to resolve this issue.

We appreciate the opportunity to respond to this draft report. If you have any questions regarding our response, please contact [REDACTED] at [REDACTED]

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