United States General Accounting Office

GAO

Report to the Subcommittee on Department Operations, Oversight, Nutrition, and Forestry, Committee on Agriculture, House of Representatives

October 2001

USDA GRADUATE SCHOOL

Revenue Reporting Needs to Be Improved

G A O

Accountability * Integrity * Reliability

GAO-02-5

United States General Accounting Office
Washington, DC 20548

October 15, 2001

The Honorable Robert Goodlatte
Chairman
Subcommittee on Department Operations,
Oversight, Nutrition, and Forestry
Committee on Agriculture
United States House of Representatives

Dear Mr. Chairman:

The U.S. Department of Agriculture (USDA) provides extensive training opportunities to government employees and others through its Graduate School. In fact, the USDA Graduate School has a unique role as a training source for federal employees. As a nonappropriated fund instrumentality (NAFI), the USDA Graduate School is not funded through congressional appropriations; its revenue is solely derived from providing training services to federal employees and others.

Based on your interest in the USDA Graduate School, you asked several questions about its role in providing training services. In response to your questions and after discussions with your office, we agreed to conduct an evaluation that focused on the following objectives:

- characterizing the purpose and operating structure of the Graduate School, as a NAFI,
- determining the extent of training services that selected federal agencies obtained from the Graduate School and private companies during fiscal year 1999 and learning how these agencies decide on vendors, and
- assessing the reasonableness of interagency agreement revenue reported by the Graduate School in fiscal year 1999.

Results in Brief

The U.S. Department of Agriculture Graduate School is a unique source of training for federal and other professional staff. It is a nonappropriated fund instrumentality whose purpose is to provide training to the federal sector as well as to other organizations and individuals. Although established in 1921 to support the Department of Agriculture's research scientists, its purpose and curriculum have expanded over the years to include many professional disciplines. Its operations are managed by a governing board that sets policies for the school. As a NAFI, the Graduate School receives no appropriated funds but operates solely on revenue derived from providing training services. It is not a federal agency, and certain federal laws generally applicable to federal agencies, such as the Freedom of Information Act, do not apply to its operations. However, Congress specifically authorized federal agencies to enter into interagency agreements with the Graduate School to obtain training services.

We examined a nonstatistical sample of agencies for which the Graduate School indicated it had provided training services in fiscal year 1999 and assessed the scope of training and how the training services were provided.[1] During fiscal year 1999, the agencies or agency components we reviewed had 20 interagency agreements, totaling approximately $5.7 million, with the Graduate School and 531 contracts, totaling about $29 million, with private companies for training and other related services. Agency officials characterized their use of the Graduate School to meet their training requirements for any given year as limited, ranging from 0 to 11 percent of an agency's total annual training budget. All of the surveyed agencies had specific policies, practices, and procedures that governed the acquisition of external training for their employees and required the consideration of other vendors to fulfill a training requirement. When a federal agency selects the Graduate School as the vendor to provide training, the agency has several options through which to procure the training, including contracts or interagency agreements. The agencies indicated that interagency agreements generally are more convenient because they take less time to process than contracts.

The Graduate School incorrectly identified the portion of revenue that was earned through interagency agreements in its fiscal year 1999 financial statements. Specifically, while the Graduate School reported about $7.1 million in interagency agreement revenue for fiscal year 1999,[2] on the basis of our stratified random sample, we estimated interagency agreement revenue to be about $14.9 million.[3] The difference of $7.8 million represents a misclassification of certain interagency

[1]The sample consisted of six agencies with which, we were told by the school, it had interagency agreements in fiscal year 1999: the Census Bureau, Customs Service, Federal Deposit Insurance Corporation, Internal Revenue Service, National Aeronautics and Space Administration, Rural Development Corporation. The seventh agency in our sample, the Department of Labor, was identified as not having an agreement during that time. We used the Department of Labor for comparison purposes.

[2]*Graduate School, USDA Financial Statements for the Year Ended September 30, 1999.*

[3]We are 95 percent confident that the interagency agreement revenue is between $13.9 million and $15.9 million based on our review of a stratified random sample of billings made in fiscal year 1999.

agreement revenue as contract training revenue on the financial statements. This misclassification resulted primarily from the Graduate School's reporting policies. Under those policies, the school classified the fixed-price portion of interagency agreement revenue as contract training revenue. Graduate School officials told us that they accumulate revenue as fixed-price versus cost-reimbursable so that the school can monitor the use of cost-reimbursable contracts.[4] We also noted two other matters regarding the processing of revenue transactions and the retention of revenue records. Specifically, we identified about $600,000 in additional misclassified transactions and missing supporting documentation for six transactions in the sample we reviewed. We are making recommendations to the Executive Director of the Graduate School to improve its reporting of interagency agreement revenue in its financial statements.

The Graduate School commented on a draft of this report and agreed with our findings. (See appendix I.)

Background

Nonappropriated fund instrumentalities (NAFI) are federal government entities whose funding does not come from congressional appropriations but rather from their own activities, such as the sales of goods and services. Their receipts and expenditures are not reflected in the federal budget. NAFIs were established to provide services and items for the morale, welfare, and recreational needs of government employees. Some NAFIs, for example the exchange system run by the Department of Defense, are created by statute. Others are created and regulated by government agencies. Some NAFIs, for example the Department of Agriculture's Graduate School, after being established by an agency, may subsequently receive congressional approval.

No single federal statute establishes the overall authority to create NAFIs or defines how they are to operate. The Department of Defense military exchange system—which includes general retail stores, specialty stores, and consumer services at military installations—is the largest NAFI program. Some other agencies that use NAFIs are the Department of Veterans Affairs, the Coast Guard, and the State Department.

[4] Cost-reimbursable contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract. Absent the contracting officer's approval, the contractor exceeds the established cost ceiling at its own risk. Fixed-price contracts provide for a firm price that is generally not subject to any adjustment on the basis of the contractor's costs in performing the contract.

Procurement laws and regulations applicable to federal government agencies generally do not apply to NAFIs. For example, the Federal Acquisition Regulation, the governmentwide regulation prescribing procedures for federal procurements and acquisitions with appropriated funds, does not include NAFI procurements with nonappropriated funds.

Even though NAFIs generally are not covered under federal procurement regulations, the government agency that establishes a NAFI generally has financial oversight or control of its operations. For example, the Department of Defense established financial oversight procedures for its NAFI activities. The Secretary of Defense is required by statute to prescribe regulations governing (1) the purposes for which nonappropriated funds of a NAFI may be expended and (2) the financial management of such funds to prevent waste, loss, or unauthorized use (10 U.S.C. §2783).

The Graduate School was established by the Secretary of Agriculture on September 2, 1921, to provide continuing education for research scientists within the department. Over the years the Graduate School has expanded as a center for professional training of government employees at the federal, state, and local levels. A major expansion in its training curriculum occurred on May 16, 1995, when the Office of Personnel Management transferred eight of its training centers to the Graduate School.

The Graduate School currently provides more than 1,500 courses annually and is open to all adults regardless of their place of employment or educational background. Training is offered in a variety of subject areas including computer science, leadership development, and government auditing. Courses are available during the daytime, evening, and on weekends. In addition, the Graduate School offers a distance learning program in which courses can be taken by correspondence and online. The Graduate School also provides training services such as conference and meeting management.

Purpose and Operating Structure of the Graduate School

The Graduate School's stated purpose is, through education, training, and related services, to improve the performance of government and to provide opportunities for individual life-long learning. Certificates of accomplishment to encourage participants to complete planned programs in their fields of study are awarded by the Graduate School. Some courses receive college credit recommendations from the American Council on Education's College Credit Recommendation Service. The credit recommendations guide colleges and universities when they consider awarding credit to participants whom have successfully completed courses at the Graduate School.

The Graduate School is under the general direction of the Secretary of Agriculture. Regulations issued by the Secretary require the Graduate School to be governed by a General Administration Board that sets the school's policies, employs its director, and oversees its operations. These regulations also require that the board and most of the board's leadership positions be filled by employees of the department. The Graduate School employs more than 1,200 part-time faculty who are drawn from government, academia, and the private sector. Graduate School employees are not part of the civil service system.

The Graduate School receives no appropriated funds but operates on revenue derived from providing training services. The school's revenue comes primarily from three sources: (1) training services provided through interagency agreements with federal agencies, (2) training services provided on a contractual basis, and (3) individual tuition, otherwise known as "open enrollment." The school uses three categories to define and report its revenue each year: (1) interagency agreement revenue, (2) contractual revenue, and (3) open enrollment revenue. An annual financial audit conducted by a private sector accounting firm is reviewed by the school's board.

In 1984, the Comptroller General ruled that the Graduate School, because it was not a federal agency, could not enter into interagency agreements with federal agencies under the Economy Act (31 U.S.C. §1535).[5] After this ruling, the Graduate School's revenue decreased about one-third, according to officials. In 1990, Congress authorized federal agencies to enter into interagency agreements with the Graduate School for training and other related services (7 U.S.C. §5922). That authority permits federal

[5] 64 Comp. Gen. 110 (1984).

agencies to enter into such agreements without regard to competition requirements mandated in the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 471, et seq.) or other procurement laws. The statute also gives the Comptroller General authority to conduct audits of the Graduate School's financial records relating to interagency agreements entered into under this provision.

In 1996, Congress passed legislation that made it clear that as of April 4, 1996, the Graduate School would continue to operate as a NAFI (7 U.S.C. §2279b). Any fees collected by the Graduate School are not considered federal funds and are not required to be deposited in the United States Treasury. That statute also provides that the Graduate School is exempt from various other federal provisions generally applicable to federal agencies, including the Freedom of Information Act, the Privacy Act, and the Federal Tort Claims Act. Consequently, the Graduate School does not have to respond to Freedom of Information Act requests, nor does it have any legal obligation to release any of its training materials, such as specific curriculum outlines, to the general public. The law authorizes the Graduate School's use of the Department of Agriculture facilities and resources on a cost-reimbursable basis. According to financial reports for fiscal year 1999, the Graduate School reimbursed the department approximately $1.5 million for use of office space and other facilities.

The USDA Graduate School Is Not the Principal Choice of Agencies for Training Services

To get information regarding the extent to which agencies use the Graduate School, we reviewed seven executive branch agencies. Collectively, the seven federal agencies we surveyed used private companies more frequently in fiscal year 1999 than the Graduate School.[6] As table 1 indicates, these agencies had far more contracts with the private sector than interagency agreements with the Graduate School (531 vs. 20, respectively) for training. In examining the funding received by the Graduate School, we found a similar result: the agencies surveyed spent more on contracts with private companies—about $29 million—than on interagency agreements with the Graduate School—about $5.7 million. The selected agencies accounted for approximately one-third of the total interagency agreement revenue earned by the Graduate School in fiscal year 1999. We also surveyed these agencies regarding their total level of

[6] In addition to using the Graduate School and private companies for external training, agencies also use colleges, universities, and other training sources, including other federal agencies.

Table 1: Fiscal Year 1999 Interagency Agreements With the Graduate School and Contracts With Primarily Private Companies

Agency	Interagency Agreements With the Graduate School		Contracts With Private Companies	
	Number	Amount	Number	Amount
Census Bureau	1	$62,400	2	$192,870
Customs	0	0	55	8,088,087
DOL	0	0	61	—[a]
IRS	12	3,870,613	15[b]	7,622,804
FDIC	5	1,476,948	52	10,917,932
NASA (Headquarters and Goddard)	2	304,486	346	2,539,009
Rural Development (Headquarters and St. Louis Region)	0	0	0	0
Total	**20**	**$5,714,447**	**531**	**$29,360,702**

Note: Our sample was drawn from a list of entities that the Graduate School told us had interagency agreements with it in fiscal year 1999, with the exception of the Department of Labor, which had no interagency agreements with the school during this time period. Those entities included the Census Bureau, Customs Service, Federal Deposit Insurance Corporation, Internal Revenue Service, National Aeronautics and Space Administration (Headquarters and Goddard Space Flight Center), and Rural Development (Headquarters and St. Louis Region). During our evaluation, we determined that two of these entities, the Customs Service and Rural Development in fact did not have interagency agreements with the school in fiscal year 1999. Nonetheless, we retained those entities along with the Department of Labor in our work because they were able to provide other relevant information.

[a]The dollar amount for these contracts was not available.

[b]Sixty-eight task orders were written under 15 umbrella contracts.

Source: Internal Revenue Service, Department of Labor, National Aeronautics and Space Administration, Rural Development, Census Bureau, Customs Service, and Federal Deposit Insurance Corporation

training supported by the Graduate School (rather than training only acquired through interagency agreements). Officials at the agencies reported that the Graduate School's share of their overall training budgets was minimal, ranging from 0 percent to 11 percent of their total annual training budgets.

Agency officials we surveyed told us they followed specific internally established policies, practices, and procedures for making decisions on vendors and procurement methods. While only two of the seven agencies had documented these policies, officials from all seven told us their policies were consistently applied and required that at least two other vendors be considered for any procurement. For example, the U.S. Customs Service has written policies governing the acquisition of training that are published in a directive and a Memorandum from the Assistant Commissioner. All Customs external training purchases require the advance approval of the appropriate management officials with delegated authority to approve training. NASA officials said they follow the external training guidelines in the Federal Acquisition Regulation. However, NASA officials at its Goddard Space Flight Center told us that when potential vendors were considered for each training requirement, a "Request for Training Quote Information" form is required for each potential vendor. This form is used to collect information regarding each potential vendor and to assess its ability to provide the training services required.

All of the agency officials said they consider a number of factors before deciding which vendor and contracting approach to use. The most commonly cited factors were cost and the ability of the vendor to provide the requested training. Additional factors agencies consider include customer needs, timeliness, past experience with the vendor, and quality of the product. Some agencies, such as the Internal Revenue Service and the Census Bureau, indicated that they conduct "market analysis" studies to identify all potential vendors. In addition, some agencies identified potential vendors using the General Services Administration's Federal Supply Schedule and the Government Wide Awarded Contracts.

If the USDA Graduate School is selected as the vendor to provide training to an agency, that training can be acquired through a variety of procurement methods including interagency agreements and contracts. In general, agencies indicated that an interagency agreement can be easier to use because it is faster to put into place. Several of the agencies we surveyed also had formal written guidance addressing the use of interagency agreements that also applies to those established with the Graduate School. For example, Census Bureau guidance specifically mentions that interagency agreements are entered into under the authority of the Economy Act,[7] including agreements with the Graduate School. Even though the Customs Service had no interagency agreements with the Graduate School in fiscal year 1999, its 1998 *Interagency Agreement Guide* makes direct reference to the Economy Act and its provisions and is applicable to agreements established with the Graduate School.

[7] 31 U.S.C. §1535

Graduate School's Financial Statements Incorrectly Identified Interagency Agreement Revenue

The interagency agreement line item in the Graduate School's fiscal year 1999 financial statements did not include all of the revenue received from interagency agreements. The Graduate School's fiscal year 1999 financial statements reported interagency agreement revenue of about $7.1 million. Graduate School officials acknowledged that its reported revenue by type was imprecise. We independently estimated interagency agreement revenue as $14.9 million using a stratified random sample of revenue billings made in fiscal year 1999.[8] The $7.8 million difference between the reported interagency agreement revenue and our estimate occurred because the Graduate School included certain revenue under contract training that should have been reported as interagency agreement revenue. According to Graduate School officials, only revenue earned under cost-reimbursable arrangements is reported as interagency agreement revenue. All fixed-price revenue is recorded as contract training, even though a significant amount of this revenue was provided through interagency agreements. Had management labeled these two line items as cost-reimbursable and fixed-price, rather than contract training and interagency agreements, the financial statements would have correctly disclosed the sources of revenue. However, mislabeling these line items caused the fiscal year 1999 financial statements to be misleading with regard to the procurement method used to generate revenue.

Graduate School officials said they chose their method of accumulating revenue as fixed-price because it provides the information needed to support certain management decisions. For example, the school has a goal of avoiding heavy reliance on cost-reimbursable interagency agreement revenue. Further, the Graduate School Board of Directors monitors the composition of the fixed-price revenue versus cost-reimbursable revenue.

In the course of our work, we noted two other matters regarding transaction processing and records retention. First, based on our sample results, we estimated that the Graduate School misclassified $563,416[9] in fiscal year 1999 revenue that was generated under contracts as interagency agreement revenue. These misclassification errors resulted from inaccurate manual coding of revenue transactions. Second, the Graduate School could not locate five billing invoices and documentation supporting

[8]We are 95 percent confident that the actual total is between $13.9 million and $15.9 million.

[9]We are 95 percent confident that the misclassified amount is between $446,872 and $679,961.

one cash receipt in our sample. We considered the six items as complete errors and classified them as interagency agreements.[10]

Conclusions

The USDA Graduate School is a nonappropriated fund instrumentality whose purpose is to improve the performance of government through training of its employees. The operating structure of the Graduate School includes oversight by the Secretary of Agriculture and a governing board. Employees of the Graduate School are not part of the civil service. In examining the extent of training received by selected federal agencies in fiscal year 1999, the majority of this training was provided by sources other than the Graduate School.

The Graduate School's revenue line items need to be consistent with the revenue sources for the school's financial statements to be meaningful. The interagency agreement line item in the school's fiscal year 1999 financial statements was not clearly and accurately reported because it did not reflect approximately half of the interagency agreement revenue that was classified as contract revenue. As a result, a reader could not determine the actual amount of total revenue derived from interagency agreements.

Recommendation

We recommend that the Executive Director of the USDA Graduate School revise the Graduate School's current financial reporting policy to ensure that the revenue line items are properly presented in the school's financial statements.

Agency Comments

We requested comments on a draft of this report from the Executive Director of the USDA Graduate School. In its written comments, the Graduate School agreed with the report's content, conclusions, and recommendation. The Graduate School comments are reprinted in appendix I.

[10]We are 90 percent confident that at least $147,743 represents the portion of contract revenue that did not have documentation.

Scope and Methodology

Our work was done at the USDA Graduate School headquarters and at selected federal agencies: the Department of Labor, the Internal Revenue Service, the Department of Agriculture's Rural Development, the Federal Deposit Insurance Corporation, the U.S. Customs Service, the Census Bureau, and the National Aeronautics and Space Administration.

To provide information on the purpose and operating framework of the Graduate School we interviewed Graduate School officials and reviewed documentation including legislation, policies, and strategic plans governing the Graduate School. We determined the extent of training services that selected federal agencies obtained from the Graduate School and private contractors and—by interviewing agency officials and reviewing appropriate documents, including agency procurement regulations and listings of agreements and contracts—we learned how such decisions were made. Six agencies covered by our work were nonstatistically selected based on their having interagency agreements and contracts with the Graduate School during fiscal year 1999.[11] The seventh agency in our sample, the Department of Labor had no interagency agreements with the Graduate School during this period. Our work was performed using fiscal year 1999 data because this was the last year for which a complete data set was available when we initiated our evaluation. The seven nonstatistical selected agencies accounted for approximately one-third of the total interagency agreement revenue earned by the Graduate School in fiscal year 1999. To assess the reasonableness of interagency agreement revenue reported in the Graduate School's fiscal year 1999 financial statements, we met with Graduate School officials and external auditors for the school; read their audited financial statements for fiscal years 1999 and 1998; and read the school policies and procedures governing the classification of revenue and contracting. Further, we

[11]Our sample was drawn from a list of entities that the Graduate School told us had interagency agreements with it in fiscal year 1999. Those entities included the Census Bureau, Customs Service, Federal Deposit Insurance Corporation, Internal Revenue Service, National Aeronautics and Space Administration (Headquarters and Goddard Space Flight Center), and Rural Development (Headquarters and St. Louis Region). During our evaluation, we determined that two of these entities, the Customs Service and Rural Development, in fact did not have interagency agreements with the school in fiscal year 1999. Nonetheless, we retained those entities in our work because they were able to provide other relevant information.

independently estimated interagency agreement revenue by selecting a stratified random probability sample of 145 transactions from 2,439 interagency agreement revenue billings made during fiscal year 1999. We stratified the population into four strata on the basis of the total of revenue billings for fiscal year 1999. In addition, we independently estimated contract revenue by selecting a stratified random probability sample of 185 transactions from 3,523 contract revenue billings made during fiscal year 1999. We stratified the population into five strata on the basis of the total amount of revenue billings for fiscal year 1999. Each sample element was subsequently weighted in the analysis to account statistically for all members of the respective populations, including those that were not selected.

Transactions selected in the sample were tested for accuracy and to determine whether or not they were classified correctly. The confidence level used for estimating the value of misclassified amounts was 95 percent and the expected tolerable amount in error (test materiality) was $545,950.

We also tested the reliability of the $6.1 million in fixed-price interagency agreement revenue identified by Graduate School officials that was reported as contract training revenue. We did not audit the Graduate School's financial statements or review the other auditor's workpapers. Furthermore, we are not expressing an opinion on the Graduate School's financial statements or on whether their auditors followed professional standards.

We conducted our review in the Washington, D.C., metropolitan area from November 2000 to June 2001 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Executive Director of the Graduate School.

We are sending copies of this report to the Chairman of the House Committee on Agriculture; the Director of the USDA Graduate School; the Secretaries of the Departments of Agriculture, Labor, Treasury, and Commerce; the Directors of the Federal Deposit Insurance Corporation and U.S. Census Bureau; the Administrator of the National Aeronautics and Space Administration; the Commissioners of the Internal Revenue

Service and U.S. Customs Service; and the Deputy Undersecretary of the Rural Development and other interested parties. We will also make copies available to others on request. Major contributors to this report are listed in appendix II. If you have any questions please call me at (202) 512-9490.

Sincerely yours,

George H. Stalcup
Director
Strategic Issues

Appendix I: Comments From the Department of Agriculture

Graduate School, USDA
THE GOVERNMENT'S TRAINER

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October 5, 2001

Mr. George Stalcup
Director
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U.S. General Accounting Office
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Dear Mr. Stalcup:

We would like to thank you for the opportunity to comment on the draft report, and to compliment you for the professionalism and respect displayed by the GAO Audit Team. Every team member we encountered was knowledgeable of processes and procedures, and was fair in understanding our business and accounting systems.

The Graduate School, USDA has reviewed your draft report, *USDA Graduate School: Revenue Reporting Needs to be Improved.* (GAO-02-0005) and we concur with your recommendation.

We agree with the GAO that, "Had management labeled these two line items as cost-reimbursable and fixed price, rather than contract training and interagency agreements, the financial statements would have correctly disclosed the sources of revenue". We will modify our future statements to address your recommendation.

Again we thank you for the opportunity to comment on your draft report.

Sincerely,

Lynn McElhaney
for Dr. Jerry Ice
Executive Director

Appendix II: GAO Contacts and Staff Acknowledgments

GAO Contact

George H. Stalcup, (202) 512-9490.

Acknowledgments

Key contributors to this report were Charlesetta Bailey, Jeffrey Bass, Sharon Byrd, Brandon Haller, Jeffrey Isaacs, Casandra Joseph, Boris Kachura, Carla Lewis, Delois Richardson, Sylvia Shanks, Alana Stanfield, Michael Volpe, McCoy Williams, and Gregory Wilmoth.

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