Audit of Allocation of Common Support Expenses

FINAL AUDIT REPORT

ED-OIG/A19-D0003
April 2004

Our mission is to promote the efficiency, effectiveness, and integrity of the Department's programs and operations.

U.S. Department of Education
Office of Inspector General
Operations Internal Audit Team
Washington, DC

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education Officials.

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UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

April 27, 2004

MEMORANDUM

TO: William Leidinger
Assistant Secretary for Management and Chief Information Officer
Office of Management
Lead Action Official

Dr. Eugene Hickok
Deputy Secretary
Office of the Deputy Secretary
Collateral Action Official

FROM: Helen Lew /s/
Assistant Inspector General for Audit

SUBJECT: Final Audit Report
Audit of Allocation of Common Support Expenses
Control Number ED-OIG/A19-D0003

Attached is the subject final audit report that covers the results of our audit of the allocation of common support expenses. An electronic copy has also been provided to you and your Audit Liaison Officers. We received your comments generally concurring with the findings and recommendations in our draft report.

Corrective actions proposed (resolution phase) and implemented (closure phase) by your offices will be monitored and tracked through the Department's automated audit tracking system. Department policy requires that you develop a final Corrective Action Plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth specific action items, and targeted completion dates, necessary to implement final corrective actions on the findings and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after six months from date of issuance.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us during this review. If you have any questions, please call Michele Weaver-Dugan at (202) 863-9526.

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EXECUTIVE SUMMARY

The Department of Education (Department) uses the term "common support" to represent expenses necessary for the maintenance and operation of common administrative services. Examples of these services include mailroom operations, security services, and network administration. The Office of Management (OM), with the assistance of Budget Service in the Office of the Deputy Secretary, currently manages the common support expense allocation process. During FY 2002, the period primarily covered by this audit, the Office of the Chief Information Officer (OCIO) and Office of the Chief Financial Officer staff were responsible for management of common support expenses related to information technology.

The objectives of our audit were to:

1. Determine the appropriateness of the Department's process for allocating common support expenses and whether the process is periodically reevaluated.
2. Determine if excess funds and chargebacks are properly explained and returned to the Principal Offices in a timely manner.

Overall, we found improvements were needed in the Department's common support expense allocation process. While we found the Department periodically reevaluated expenses to determine the most appropriate budget allocation methodology, the actual budget methodology employed for allocating some expenses was not always supported. In addition, the costs of some common support projects were inappropriately allocated to Principal Offices (POs) and Programs that did not benefit from the projects. We also found that actual expenditures were not always charged to the POs/Programs for which the expense was incurred. As a result, POs/Programs may be providing a disproportionate share of funding without their knowledge, possibly reducing funds available to fulfill their missions. In addition, expenditures charged did not always represent actual expenses to POs/Programs so the true cost of PO/Program operations could not be determined, POs/Programs could not effectively manage their budgets, and excess funds could not be readily determined and were not always returned timely. We also found that policies and procedures had not been developed to document and communicate the common support expense allocation process to Department staff. PO staff were confused and uncertain about the process, and information was not readily available to explain the process or train new staff.

To correct the weaknesses we identified, we recommend that the Department:

- Develop a methodology for appropriately allocating common support expenses to include (a) documentation of adjustments made to budget allocations, when such adjustments do not follow the established budget allocation methodology, (b) allocation of project costs to only those POs/Programs that benefit, (c) allocation of actual common support expenses to the POs/Programs for which the expense was incurred, and (d) involvement of PO/Program staff in monitoring expenditures to facilitate timely return of funds.

- Develop and implement policies and procedures that document the common support expense allocation process, including the methodology for developing and allocating individual common support budget estimates and actual expenses.

We also identified 13 telephone service accounts that could not be traced to any Department user. We recommend that the Department take immediate action to disconnect the telephone service for these accounts.

The Department concurred with our recommendations with two exceptions. The Department stated that our recommendation to allocate actual common support expenses to the POs/Programs for which the expense was incurred was impractical. The Department stated that it has always been the responsibility of OM/OCIO to fund shortfalls on any mandated and approved project regardless of office contribution. OIG's recommendation does not prohibit such action by the Department. If such adjustments are appropriately documented, as the Department agreed to do in response to recommendation 1.1a, such actions would be appropriate. However, we have not changed our position that shortfalls in one POs/Program should not be funded by other POs/Programs for which all funding has not yet been used. Rather, unused funds from POs/Programs with separate appropriations should be returned to those POs/Programs to be used for mission-related use.

The Department also disagreed with our recommendation to establish a Department Directive to document the common support expense allocation process policies and procedures. The Department did agree to create a policy document outside the Department Directive process. The Department's response meets the intent of our recommendation. We have therefore reworded the recommendation to remove the specific requirement for a Department Directive and to more generally state that policies and procedures should be developed and appropriately communicated.

The entire text of the Department's response is provided as Attachment 5 to this report.

BACKGROUND

The Department of Education (Department) uses the term "common support" to represent expenses necessary for the maintenance and operation of common administrative services, such as mailroom operations, security services, and network administration. The Office of Management (OM), with the assistance of Budget Service in the Office of the Deputy Secretary, currently manages the common support expense allocation process.

Common support expenses are classified into three categories – Central Support, Central Information Technology (IT), and Telecommunications. During the annual budget process in Fiscal Year (FY) 2002 and prior years, OM managed Central Support expenses, while the Office of the Chief Information Officer (OCIO), assisted by the Office of the Chief Financial Officer (OCFO), managed Central IT and Telecommunications expenses. Beginning in FY 2003 with the FY 2005 budget submission, OM is responsible for managing all categories of common support expenses.

Common support expenses are allocated to each Principal Office (PO) or Program that has a separate administrative appropriation account. POs/Programs without separate accounts are covered under a general account entitled "Program Administration." The following are the primary accounts used for the allocation of common support expenses:

- Program Administration
- Direct Loan (managed by Federal Student Aid or FSA)
- Federal Family Education Loan Program (FFELP, managed by FSA)
- Office for Civil Rights (OCR)
- Office of Inspector General (OIG)
- Student Aid Administration (SAA, managed by FSA)

In addition, allocations for some common support expenses, such as telephone services, are made to accounts for other organizations within the Department, including Historically Black Colleges and Universities (HBCU) Capital Financing Board, National Institute for Literacy (NIL), College Housing and Academic Facilities Loans (CHAFL), National Assessment Governing Board (NAGB), and the National Board for Educational Statistics (NBES), formerly known as the National Education Research Policies and Priorities Board (NERPPB).

In FY 2002, costs for anticipated expenses were generally allocated to each PO/Program or to Program Administration based on prior years' allocations, numbers of Full-Time Equivalent (FTE) employees, or square footage. (See Attachment 1 for the FY 2002 common support categories, the expenses under each category, and the Department's stated methodology used to initially estimate and allocate costs in the budget process.)

POs/Programs with separate appropriations provided funding to OM for the estimated common support expenses allocated to the PO/Program during the budget process. OM provided the funding from Program Administration for the POs/Programs without separate appropriations. OM used two accounting systems to track common support expenses – the Integrated Administrative System and the Education Central Automated Processing System. POs/Programs could review the allocations and expenditures through either system. Budget Service also tracked allocations and expenditures through its budget formulation database system.

Actual common support expenses reported for the last four fiscal years were as follows:

Fiscal Year	Total Expenses	Central Support	Central IT	Telecommunications
FY 2003	$222,615,000	$140,828,000	$66,151,000	$15,636,000
FY 2002	$200,737,000	$131,536,000	$49,127,000	$20,074,000
FY 2001	$184,985,000	$126,503,000	$49,105,000	$ 9,377,000
FY 2000	$155,258,000	$112,189,000	$34,261,000	$ 8,808,000

AUDIT RESULTS

We found that improvements were needed in the Department's common support expense allocation process. While we found that the Department periodically reevaluated expenses to determine the most appropriate budget allocation methodology, the actual budget methodology employed for allocating some expenses was not supported. In addition, the costs of some common support projects were inappropriately allocated to POs/Programs that did not benefit from the projects. We also found that actual expenditures were not always charged to the POs/Programs for which the expense was incurred. As a result, POs/Programs might have been providing a disproportionate share of funding without their knowledge, possibly reducing funds available to fulfill their missions. We also found that policies and procedures had not been developed to document and communicate the common support expense allocation process to Department staff. PO staff were confused and uncertain about the process, and information was not readily available to explain the process or train new staff.

Finding No. 1 – The Department Did Not Have An Effective Allocation Methodology for Common Support Expenses

The Department did not have an effective allocation methodology for common support expenses. Specifically, we found that the budget methodology for allocating some common support expenses was not adequately supported, some common support expenses were allocated to POs/Programs that did not benefit from the projects, and actual expenses were not charged to the POs/Programs for which the expenses were incurred. This occurred because:

- Department staff did not follow the stated allocation methodology,
- Department staff made adjustments to allocations without documentation of the adjustments or the reasons for the adjustments,
- Complete information about specific IT projects was not communicated to the POs/Programs funding the projects, and
- Actual expenses were charged back against any available funding provided as a result of the budget allocation process, without regard to the PO/Program for which the expense was incurred.

As a result, POs/Programs might have been providing a disproportionate share of funding for common support expenses without their knowledge, possibly reducing funds available to accomplish their mission. Expenditures charged also did not always represent actual expenses for POs/Programs so the true costs of PO/Program operations could not be determined and POs/Programs could not effectively manage their budgets. Budgets for future years were based

at least in part on prior years' common support allocations, which could perpetuate the inaccuracies in future years.

OMB Circular A-127, *Financial Management Systems*, Section 6 – "Policy, " states:

> ...[F]inancial management systems must be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public.

OMB Circular A-127, Section 7 – "Financial Management Systems Requirements, " states:

> Financial management systems' designs shall support agency budget, accounting and financial management reporting processes by providing consistent information for budget formulation, budget execution, programmatic and financial management, performance measurement and financial statement preparation.

Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, (effective for fiscal periods beginning after September 30, 1996), states:

> The managerial cost accounting concepts and standards contained in this statement are aimed at providing reliable and timely information on the full cost of federal programs, their activities, and outputs. The cost information can be used by the Congress and federal executives in making decisions about allocating federal resources, authorizing and modifying programs, and evaluating program performance. The cost information can also be used by program managers in making managerial decisions to improve operating economy and efficiency. (Paragraph 1)
>
> Each reporting entity should accumulate and report the costs of its activities on a regular basis for management information purposes. Costs may be accumulated either through the use of cost accounting systems or through the use of cost finding techniques. (Paragraph 5)
>
> The cost assignments should be performed using the following methods listed in the order of preference: (a) directly tracing costs wherever feasible and economically practicable, (b) assigning costs on a cause-and-effect basis, or (c) allocating costs on a reasonable and consistent basis. (Paragraph 11)
>
> Sometimes, it might not be economically feasible to directly trace or assign costs on a cause-and-effect basis. These may include general management and support costs, depreciation, rent, maintenance, security, and utilities associated with facilities that are commonly used by various segments. (Paragraph 133)
>
> These supporting costs can be allocated to segments and outputs on a prorated basis. The cost allocations may involve two steps. The first step allocates the

> costs of support services to segments, and the second step allocates those costs to the outputs of each segment. The cost allocations are usually based on a relevant common denominator such as the number of employees, square footage of office space, or the amount of direct costs incurred in segments. (Paragraph 134)

The Department's Budget Methodology for Allocating Some Common Support Expenses Was Not Adequately Supported

We found that although Department staff stated FY 2002 allocations for Central IT and Telecommunications projects were initially based on FTE calculations, adjustments to those calculations were made during initial budget formulation and in budget execution. No documentation was maintained to support these adjustments or the reasons the adjustments were made. This resulted in an allocation process that was not consistent or equitable. POs/Programs provided a disproportionate share of funding for certain projects – in some cases more funding than would have been provided based on FTE, in other cases less funding than would have been provided based on FTE.

We reviewed project worksheets for 19 of the 20 projects in these two common support categories for FY 2002 and determined that the initial distribution for budget formulation did not match the FTE calculations for any of the projects. Differences involving at least one PO/Program were found in all cases. In 11 cases, the differences represented a decrease to OCR and a corresponding increase to Program Administration, or in one case, to Direct Loans. In the other eight cases, differences from the FTE calculations were noted in multiple POs/Programs. See Attachment 2 for details of this analysis.

Department staff stated that the FTE distribution was a starting point, and then OCIO and/or Budget Service could make adjustments as needed based on prior usage or other factors such as funds availability. However, no documentation was maintained to support the adjustments made. In the 11 projects where we noted the allocation for OCR was reduced, Department staff stated that OCR's budget might have come in less than what was anticipated, so its allocation to all common support projects was reduced. Again, no documentation was available to support that this was the reason for these adjustments.

We further analyzed the Central IT projects to compare allocations to actual expenses for FY 2002. The total project costs for the 14 Central IT projects changed from budget formulation to the actual expenses at the end of the year, as is to be expected with a two-year lapse in the budget process. However, the changes were not redistributed proportionately to the POs/Programs providing funding for any of the projects. Budget Service staff stated that they attempt to distribute changes proportionately, but in some cases where a PO/Program does not have sufficient funding for an increased amount, the difference is generally absorbed by Program Administration or another program where funding is available. As with adjustments to the initial budget allocations, we found that there was no documentation to support the rationale for the redistribution of the funds during budget execution.

The table below shows three examples of disproportionate reallocation of increases or decreases in project costs.

Adjustments to Original Project Amounts
Disproportionate Reallocation of Costs

Project Title	Original FY 2002 Budget Allocation	FY 2002 Actual Expenses	Dollar Difference – Original Budget Allocation vs. Actual Expenses	Percent Difference
Automated Case Management				
Program Administration	$174,800	$0	$(174,800)	-100.0%
Direct Loan	$36,000	$36,000	$0	0.0%
FFELP	$23,200	$24,000	$800	3.4%
OCR	$46,000	$46,000	$0	0.0%
OIG	$18,000	$19,000	$1,000	5.6%
Total	$298,000	$125,000	$(173,000)	-58.1%
Information Management				
Program Administration	$430,700	$100,000	$(330,700)	-76.8%
Direct Loan/FSA	$87,600	$88,000	$400	0.5%
FFELP	$58,400	$0	$(58,400)	-100.0%
OCR	$109,500	$80,000	$(29,500)	-26.9%
OIG	$43,800	$44,000	$200	0.5%
Total	$730,000	$312,000	$(418,000)	-57.3%
Information and Critical Infrastructure Assurance Program (IT Security)				
Program Administration	$964,700	$1,896,000	$931,300	96.5%
Direct Loan	$196,200	$212,000	$15,800	8.1%
FFELP	$130,800	$131,000	$200	0.2%
OCR	$245,300	$128,000	$(117,300)	-47.8%
OIG	$98,000	$98,000	$0	0.0%
Total	$1,635,000	$2,465,000	$830,000	50.8%

See Attachment 3 for this evaluation of all 14 Central IT projects.

Budget Service staff stated that there were so many adjustments during budget formulation and execution that it would be impossible to track the changes and document why the changes were made. Budget Service staff stated that the budget formulation database system did not include the capacity to make entries and provide comments as to why a change was made. OM staff maintained a spreadsheet of the common support expenses and just changed the total amount when adjustments were made. No record was maintained of changes to that spreadsheet. OM staff stated that funds were moved between projects if one common support project was not going to cost as much as anticipated, and the funds were needed in another project. OM staff further stated that if a PO/Program did not have sufficient funds for a project, additional funds were often provided from Program Administration.

Without a record of the adjustments made, and the rationale behind the adjustments, we could not determine the reasonableness of the allocations. The Department's stated allocation methodology for the Central IT and Telecommunications projects was based on FTE. We found that methodology could not be validated for initial allocations in any of the 19 projects, or for the final actual expenses for any of the 14 Central IT projects, due to the adjustments made during budget formulation and execution. As such, POs/Programs were providing disproportionate shares of funding for these projects.

Some Common Support Expenses Were Allocated to POs/Programs that Did Not Benefit from the Projects

We reviewed the reasonableness of FY 2002 and FY 2003 actual expense allocations for 14 Central IT projects and found that allocations for 3 projects were made to POs/Programs that did not benefit from the projects. These three projects were not for common administrative expenses such as network support or telephone services, but for specific IT initiatives that benefited a limited number of POs/Programs. We based our conclusions on the project descriptions and discussions with the OCIO project managers to determine whether the POs/Programs that were allocated costs benefited from the projects. The three projects identified were as follows:

- **Automated Case Management System** – This project was for the development of a case management system for OCR. The project worksheet stated that based on the results of this pilot, other Principal Offices, particularly the Office of the General Counsel (OGC), would be given an opportunity to test the software for their own needs. (OGC falls within the Program Administration account.) However, according to the OCIO project manager, OGC had not been contacted to assess their interest. In total, costs of $139,000, or 56 percent of the total project costs for these two years, were allocated to FSA and OIG, POs/Programs that did not benefit from the project.

- **Data Standardization and Coordination** – This project focused on data quality in the Department's program databases and the collection, storage and transmission of education program assessment information at the local, state and federal education agency levels. Since the focus of this project was on data collected and transmitted to local and state education agencies, representing elementary and secondary education programs, FSA did not benefit from this project. The project manager stated that eventual expansion to FSA programs was anticipated, but not for a few years. Costs totaling $144,000, or nine percent of the total project costs, were allocated to FSA programs that did not benefit from this project.

- **Information Management** – Related to the Data Standardization and Coordination project above, this project focused on the quality of the data collections sponsored by the federal government programs and supplied by the States and school districts. As with the project above, this project involved elementary and secondary educational programs. Future expansion to FSA programs was anticipated, but not for a few years. Costs

totaling $132,000, or 42 percent of the total project costs, were allocated to FSA programs that did not benefit from this project.

In total, allocations of $415,000, or 20 percent of the $2.1 million total costs for these three projects, were made to POs/Programs that did not benefit from the projects. Details are shown in the table below.

Central IT Project Costs
Allocations to POs/Programs that Did Not Benefit

Central IT Project	Actual Costs FY 2003	Actual Costs FY 2002	Total Actual Costs	Costs Allocated to POs/Programs that Did Not Benefit
Automated Case Management				
Program Administration	$19,000	$0	$19,000	$0
Direct Loan	$60,000	$36,000	$96,000	$96,000
FFELP	$0	$24,000	$24,000	$24,000
OCR	$46,000	$46,000	$92,000	$0
OIG	$0	$19,000	$19,000	$19,000
Student Aid Administration	$0	$0	$0	$0
Total	$125,000	$125,000	$250,000	$139,000
Percent of Total Costs				56%
Data Standardization & Coordination				
Program Administration	$167,000	$1,246,000	$1,413,000	$0
Direct Loan	$0	$144,000	$144,000	$144,000
FFELP	$0	$0	$0	$0
OCR	$0	$0	$0	$0
OIG	$0	$0	$0	$0
Student Aid Administration	$0	$0	$0	$0
Total	$167,000	$1,390,000	$1,557,000	$144,000
Percent of Total Costs				9%
Information Management				
Program Administration	$0	$100,000	$100,000	$0
Direct Loan/FSA	$0	$88,000	$88,000	$88,000
FFELP	$0	$0	$0	$0
OCR	$0	$80,000	$80,000	$0
OIG	$0	$44,000	$44,000	$44,000
Student Aid Administration	$0	$0	$0	$0
Total	$0	$312,000	$312,000	$132,000
Percent of Total Costs				42%
Total Actual Expenses FY 2002 – FY 2003			**$2,119,000**	
Total Unreasonable Expense Allocations				**$415,000**
Percentage of Unreasonable Expenses Allocations				**20%**

We met with PO/Program staff to determine whether they were aware that they were funding the projects. OCIO officials stated that the funding allocations were approved through the Planning and Investment Review Working Group and that PO staff should have been aware of these decisions. However, we found that for the three Central IT projects noted, PO/Program staff were not aware of the nature of the projects they were funding. Project worksheets used in budget formulation were not provided to the PO/Program staff so they were not able to effectively evaluate the subject matter of the projects they were funding. PO/Program staff reported that the information they received included lump-sum data for all IT projects, or general names of projects from which they could not discern the appropriateness of the allocations.

PO/Program staff stated that the project worksheets we obtained, which included project descriptions, as well as funding allocations, would be useful in evaluating allocations for common support projects. These worksheets were readily available and used by OCIO for IT projects, and should have been provided to POs/Programs that are providing funding for the projects. Without such detailed information, PO/Program staff did not have sufficient information on how the funds are being spent, or to question the allocations made. Responsibility also lies with the PO/Program staff to ensure that they were familiar with the uses of their funds.

Actual Expenses Were Not Charged to Principal Offices or Programs for Which the Expenses Were Incurred

Actual expenditures for some common support expenses were not charged to the POs/Programs that actually benefited from the expenditure. We reviewed a random sample of 50 common support expenditures from FY 2002 for Communications and IT Services. These expenditures totaled $562,085 and were charged to either Program Administration or OCR. We identified 28 instances totaling $110,567 where the actual expenditures were not charged to the POs/Programs that benefited from the expense, as follows:

- Ten expenditures totaling $14,910 were applied against OCR's account that either did not benefit OCR, or that also benefited other Department offices.
- Three expenditures totaling $93,720 for common services (such as network support) were charged only to Program Administration and not allocated to all benefiting POs/Programs.
- Two phone service expenditures totaling $533 were applied to Program Administration but actually benefited OIG, a PO that provides separate funding for common support.
- Six phone service expenditures totaling $1,032 were applied against OCR's account, and another seven phone service expenditures totaling $372 were applied to Program Administration. However, when reviewed further as part of this audit, the Department could not identify the PO for which the charges were incurred. During our review, OCIO staff indicated they were taking actions to disconnect the service for these accounts.

See Attachment 4 for further details on these charges.

While *anticipated* expenses were allocated through the budget process, *actual* expenses were charged back against any available funding provided as a result of the budget allocation process. Department staff cited the difficulty in determining the actual POs/Programs that benefit from an expenditure, and if the expenditure benefits several POs/Programs, applying the appropriate funding to multiple accounts. Department staff stated that while a PO/Program might be overcharged for some items, or be charged for some expenses from which it does not benefit, it might be undercharged for others. OM staff stated that in many cases, Program Administration covered a funding shortfall and additional funds were not requested from POs/Programs.

While we did see in some instances that Program Administration provided additional funds, there were also instances where the funding to be provided by Program Administration was reduced. Without reviewing every transaction, the overall impact of this practice could not be determined. Common support expenses have been steadily increasing over the past several years as shown in the Background section of this report. Total actual common support expenses have increased by 43 percent between FY 2000 and FY 2003. These expenses represent larger portions of PO/Program budgets, and as a result, increased importance should be placed on appropriately allocating these costs to the POs/Programs that incur the expenses to enhance the accuracy of future budget allocations.

Because reported expenditures did not necessarily reflect PO/Program costs, POs/Programs could not effectively manage their budgets. Since actual expenses were not reflected in the accounts, it was difficult to predict surplus funds or the need for additional funds until the very end of the fiscal year. We reviewed seven cases where documentation was available on the return of common support funds to POs/Programs for FY 2001 and FY 2002. We found excess funds were returned very late in the year, limiting the PO/Program's ability to use the funds effectively. In one case, the funds were returned in August. In the remaining cases, the funds were returned in September – two instances in mid-September, and four instances in the last three days of September.

Department staff stated that it was difficult to predict excess funds since some invoices were received after the end of the year or contain adjustments for prior periods. There was one OM staff member, in addition to other duties, that had the responsibility for reviewing all common support allocations and actual expenditures to determine if excess funds would be available. However, if actual expenses were charged back to the POs/Programs for which the expenses were incurred, the POs/Programs would be more familiar with the actual expenses and pending amounts, and could help monitor expenditures to identify excess funds that could be returned more timely.

A check and balance was also missing in the system, as PO/Program staff that were more familiar with expenses incurred were not able to detect errors or possible irregularities or inappropriate charges. While PO/Program staff had access to financial data showing amounts charged, assurance of the appropriateness of amounts charged was lessened since the amounts did not necessarily relate to PO/Program expenses. As such, improper payments could not be detected. PO/Program staff involvement in the review of expenses charged might have identified the invalid telephone service charges noted in our review.

Prior OIG Management Review

In a management review report issued in 1998,[1] the OIG recommended that the Department continue to search for additional areas where amounts charged back to the POs/Programs could be based on actual charges rather than on FTE usage. The Department responded that they would continue to seek ways to determine actual charges rather than using the FTE formula and that at every opportunity the Department uses actual data when the data is available.

We found that in charging the actual expenses back to a PO/Program, the Department's methodology is based on the funding estimates established in the budget process, not on charging the actual PO/Program that benefited from the expense. As we have noted, the methodology for establishing budget allocations was flawed, therefore any subsequent reliance on this data for budget allocations in future years continues to perpetuate inaccuracies. Initial budget allocations were not based on FTE for any of the 19 projects reviewed. In addition, the adjustments that were made to the allocations throughout the budget process were not made proportionately, resulting in unequal sharing of common support costs. Documentation was not available to support the reasons for the adjustments made. Further, POs/Programs were allocated costs for IT projects from which they did not benefit.

Improvements are needed to ensure that allocation of common support expenses is reasonable and consistent.

Recommendations:

We recommend that the Assistant Secretary for Management and Chief Information Officer, in conjunction with the Acting Deputy Secretary, take action to:

1.1 Develop a methodology for appropriately allocating common support expenses. This methodology should include:

a. Documentation of adjustments made to allocations, including the rationale for the adjustments. POs/Programs with separate appropriation accounts should be provided with justification for adjustments made that vary from the FTE or other stated allocation methodologies so that they are aware of adjustments made to uses of their funds.

b. Allocation of Central IT project costs to only those POs/Programs that benefit. For POs/Programs with separate appropriation accounts that fund a project, the project formulation worksheets should be provided so that the POs/Programs are fully informed of the uses of their funds, and have the opportunity to question funding provided for projects from which they do not benefit.

[1] "Common Support Expense Fund," ED-OIG/S53-70006, dated July 8, 1998.

c. Allocation of actual common support expenses to the PO/Program for which the expense was incurred. If the specific PO/Program cannot be identified, allocate expenditures based on the budget methodology used to initially allocate funding. Where expenditures apply to all POs/Programs, allocate on the basis of number of FTE or another appropriate equitable method.

d. Involvement of PO/Program staff in monitoring expenditures to facilitate timely return of funds.

We recommend that the Assistant Secretary for Management and Chief Information Officer:

1.2 Take immediate action to disconnect the 13 telephone service accounts identified in the audit. Work with the telephone service provider to determine the correct owner of the accounts and seek reimbursement of all amounts paid on those accounts as appropriate.

Department of Education Response:

The Department concurred with recommendations 1.1a, 1.1b, 1.1d, and 1.2, and reported that the 13 telephone service lines have been disconnected. With respect to recommendation 1.1c, the Department stated,

> This recommendation is impractical because it will not work all of the time. This assumes that an actual expense will be paid for by an office. However, OM cannot dictate to an office which has limited resources the expectation that they will be required to fund an old activity in which the funding has been cut or a new activity where funding was never requested. In this situation, it has always been the responsibility of OM/OCIO to fund shortfalls on any mandated and approved project regardless of office contribution....

Office of Inspector General Comments:

In recommendation 1.1c, OIG provided three options – (1) allocate the expenses to the PO/Program for which the expenses were incurred, (2) if the specific PO/Program cannot be identified, allocate expenses based on the budget methodology, or (3) where expenditures apply to all POs/Programs, allocate based on FTE or another appropriate equitable method. This recommendation does not prohibit OM/OCIO from funding shortfalls. If such adjustments are appropriately documented, as the Department agreed to do in response to recommendation 1.1a, such actions would be appropriate. However, shortfalls in one PO/Program should not be funded by other POs/Programs for which all funding has not yet been used. POs/Programs should be charged for actual expenses whenever such expenses can be identified. If the expenses for a PO/Program cannot be identified, POs/Programs should pay for an equitable share of expenses. OM/OCIO may continue to fund shortfalls, but unused funds from POs/Programs with separate appropriations should be returned to those POs/Programs to be used for mission-related use.

Finding No. 2 – The Department Has Not Formally Communicated the Common Support Expense Allocation Process

The Department had not formally communicated the common support expense allocation process to staff and management. A small number of staff from OM, Budget Service, OCIO, and OCFO were involved in managing the common support expense allocation process. Staff in other POs/Programs had only limited information on how the process works and what expenses are being charged to their organization. While some POs/Programs were included in the Program Administration account and did not contribute funds directly to common support, other POs/Programs did provide funds from their budgets for their share of common support expenses. These separately funded POs/Programs especially had a need for information on how costs were allocated and charged to their appropriations.

The General Accounting Office (GAO) "Standards for Internal Control in the Federal Government," *dated* November 1999, states that internal control "...comprises the plans, methods, and procedures used to meet missions, goals and objectives...." GAO states:

> These standards provide a general framework. In implementing these standards, management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure that they are built into and an integral part of operations.

Under "Information and Communications," GAO states:

> Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.

OMB Circular A-11, Part 4, "Instructions on Budget Execution, " Section 150.3, states:

> Your agency's *management controls* are the organization, policies and procedures that your agency uses to reasonably ensure that:
>
> - Programs achieve their intended results.
> - Resources are used consistent with agency mission.
> - Programs and resources are protected from waste, fraud and mismanagement.
> - Laws and regulations are followed.
> - Reliable and timely information is obtained, maintained, and reported for use in decision-making.

Departmental Directive OM: 1-101, "The Administrative Communication System," dated August 5, 2003, states under "Purpose," that the Administrative Communication System (ACS),

"informs employees of the Department's polices, procedures, requirements and other important information of general applicability through the use of directives and handbooks." Under "Policy," the Directive states:

1. The ACS governs documents that:
   a. Announce administrative methods or procedures that affect more than one Principal Office;
   b. Require action or impose workloads of a continuing nature on more than one Principal Office;
   c. Furnish information to more than one Principal Office that is essential to the operation of the Department; or
   d. Provide documentation of internal control systems affecting more than one Principal Office.

While GAO standards, OMB guidelines, and the Department's Directive all emphasize the use of policies and procedures to establish and implement management controls and inform employees of requirements, the only Department document that addressed the common support expense allocation process was the "FY 2004 Salaries and Expenses Budget Guidance," dated May 15, 2002. This document provided general information for preparing FY 2004 budget submissions. Attachment D discussed the request for Central Support funds while Attachment E discussed the request for Central IT and Telecommunications funds. However, this document did not provide any information on how common support expenses would be allocated to the POs/Programs. No chart or table showing the allocation methodology for each expense was available. In order to determine the budget allocation methodology for our audit, we had to meet with OM, Budget Service, OCIO, and OCFO staff to obtain information on each individual expense.

During our review, we met with staff from the executive offices of four POs and found that PO staff were not familiar with how expenses are allocated on their behalf or to their appropriations. As discussed in Finding 1, PO/Program staff did not have complete information on the Central IT projects they were funding. This resulted in confusion and uncertainty on the part of PO staff on the appropriateness of the allocations. POs reported receiving little information on actual expenditures incurred and expressed concerns on how some common support expenses are charged. POs reported only a few areas where they worked with OM or OCIO to monitor costs, such as postage costs or cellular telephone use.

OM staff stated that they are in constant communication via telephone and electronic mail with the POs/Programs on common support issues. OM staff stated that some PO/Program budget offices seem better able to understand the common support process than others. While we agree that PO/Program staff are responsible for knowing the use of their funds, a published policy represents a good internal control and should result in less confusion on the issues.

Since only a limited number of Department staff had knowledge of the methodology used to allocate common support expenses, the Department was at risk of losing that information should the employees leave the Department. As the Department did not have a written record of how common support expenses were allocated, information was not readily available for training new staff in OM or Budget Service, or within the budget offices of individual POs/Programs.

Prior OIG Management Review

In the 1998 management review report, OIG recommended that the Department develop and communicate the policies and procedures regarding the common support expense process. At that time, the Department responded that it used guidelines and instructions in Department directives and written instructions from Budget Service based on OMB Circulars. The Department further advised that some communications were made less formally through email. No policies and procedures specific to common support were developed as a result of the prior review recommendation.

We found that the need still exists to formally develop policies and procedures regarding the common support process and to communicate this information to Department stakeholders. Confusion and uncertainty as to the common support expense allocation process continue to be expressed by PO/Program staff.

Recommendation:

We recommend that the Acting Deputy Secretary, in conjunction with the Assistant Secretary for Management and Chief Information Officer, take actions to:

2.1 Develop and implement policies and procedures that document the common support expense allocation process, including the methodology for developing and allocating individual common support budget estimates and actual expenses.

Department of Education Response:

The Department did not concur with this recommendation, stating, "...the process for clearance and making changes is not conducive to the Directive process." However, the Department stated, "It is our recommendation that in conjunction with Budget Service, OM will create a policy document that will provide explanation and clarification of the budget formulation process." The Department further stated that it will place a listing that can be accessed by all offices through its intranet website, and that a detailed procedural document will be created for internal use in OM.

Office of Inspector General Comments:

The Department's response meets the intent of our recommendation. We have reworded the recommendation to remove the specific requirement for a Department Directive and to more generally state that policies and procedures should be developed and appropriately communicated.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to:

1. Determine the appropriateness of the Department's process for allocating common support expenses and whether the process is periodically reevaluated.
2. Determine if excess funds and chargebacks are properly explained and returned to the Principal Offices in a timely manner.

To accomplish our objectives, we obtained an understanding of the controls in place over the common support expense allocation process. We reviewed applicable laws and regulations, Departmental polices, procedures, and budget guidance, and General Accounting Office *Standards for Internal Control in the Federal Government*. We also examined a prior OIG management review of the common support expense allocation process. We conducted interviews with OM, Budget Service, OCFO, and OCIO staff responsible for managing the common support process and common support projects. We also interviewed applicable staff from selected POs.

To perform our audit, we reviewed the largest expenses in each of the three common support categories. Under Central Support, the largest expense was Rent. We reviewed the expenditures charged for two judgmentally selected months from FY 2002 (March and July). Total rent charges for the year were $54.4 million. The two months we reviewed represented $9.3 million in rent charges. We compared the actual expense allocations for each PO/Program to the rent billing statements from the General Services Administration. Since this sample was judgmentally selected, the results may not be representative of the entire population.

The largest expense under Central IT was IT Services, and under Telecommunications the largest expense was Communications. We randomly selected a sample of 25 actual expenditures from each of these expenses for FY 2002. The 50 expenditures reviewed totaled $562,085, from a universe of 449 expenditures totaling $28,168,386. Our review was limited to expenses charged to Program Administration and to OCR. To assess the accuracy and allocation of these expenses, we reviewed actual invoices, billing statements, and other supporting documentation.

We reviewed the allocations made for 19 of the 20 Central IT and Telecommunications projects for FY 2002. We evaluated the allocations made based on FTE calculations, and adjustments made to the calculations from the initial budget formulation through execution. We also evaluated the reasonableness of the final allocations made for the 14 Central IT projects for FY 2002 and FY 2003.

We also tested 12 POs/Programs with separate appropriations where budget allocations exceeded the actual costs at the end of FY 2001 and FY 2002 to determine whether the funds were returned, and if so, whether the returns were timely.

In order to assure ourselves of the reliability of computer-processed data, we reconciled OM and Budget Service reports with the Department's general ledger. We completed testing and review of support schedules to the actual invoices and billing statements. Based on these assessments, we concluded the data was sufficiently reliable to be used in meeting the audit's objectives.

We performed our fieldwork at applicable Department of Education offices in Washington, DC, during the period February 2003 through January 2004. We held an exit conference with Department management on January 22, 2004. Our audit was performed in accordance with generally accepted Government Auditing Standards appropriate to the scope of the review as described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed the system of management controls, policies, procedures, and practices applicable to the Department's administration of the common support expense allocation process. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objectives.

For the purpose of this report, we assessed and classified the significant controls into the following categories:

- Policies and procedures;
- Allocation methodology; and
- Return of excess funds.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed significant management control weaknesses that adversely affected the Department's ability to administer the common support expense allocation process. These weaknesses included the Department's methodology for allocating common support expenses during the budget process, adjustments made to these allocations, charging actual expenditures back to POs/Programs, and the lack of policies and procedures to document and communicate the common support expense allocation process. These weaknesses and their effects are fully discussed in the AUDIT RESULTS section of this report.

FY 2002 Common Support Expenses: Budget Allocation Methodology

Central Support Expenses:	**Method**[2]
Awards	FTE
Benefits	Actual
Travel/Motorpool	Actual
Transportation/Shipping and Freight	Actual
Rent to General Services Administration	Square Footage
Copier Equipment Leases/Federal Express Shipping	Actual
Postage/Fees	Actual
Printing	Actual
Alternate Format Center	Actual
Computer-Based Training Development	FTE
Communications Access	Actual
Competency Development	FTE
Copy Centers	Actual
Customer Service Center	FTE
Drug Free Workplace Program	Actual
Department of Education Awards Ceremony	Actual
Human Capital Investment	Actual
Interpreters	Actual
Mailroom Services	FTE
Merit Promotion Database	FTE
Management/Leadership Development	FTE
Miscellaneous Services	FTE
Moving Services	FTE
Organizational Improvement	Actual
Parking Contracts and Services	Actual
Performance Measurement	Actual
Reasonable Accommodation Training Contract	Actual
Reasonable Accommodation	Actual
Recreation Facilities	FTE
Security-Remote Mail Facility	Actual
Security-Upgrade Badge System	Actual
Shuttle Bus Service	FTE
Space Management/Planning	Actual

[2] "Actual" indicates estimates were based on prior year actual costs, or estimates of the costs for the current year based on past usage or expected benefit for the current year. "FTE" indicates costs were allocated based on the number of full time equivalent staff in the POs/Programs affected. Rent was allocated based on the square footage of space occupied by a PO/Program.

Central Support Expenses (Continued)	**Method**
Statistical Expert/Class Action Suit	FTE
Training Services/Consulting	FTE
Security – X-ray Screening Training	Actual
Training Development Center	FTE
Training – Work/Life Programs	Actual
Administrative Payments	FTE
Boston Personnel Support	FTE
Regional Cooperative Administrative Support Unit	FTE
Child Care	FTE *
Consumer Information Center	Actual
Consolidated Fund Report	FTE
Cost-for-Copy Service	Actual
Counseling Services/Employee Assistance Programs	FTE
Drug Free Workplace Program	Actual
Environmental Test/Survey	Actual
Excess Property Management	Actual
Federal Audit Clearinghouse	FTE
Federal Executive Institute	Actual
Federal Quality Consulting Group	Actual
Federal Payroll Personnel System	FTE
Guard Services	FTE
Health Unit Services	FTE
Medical Offer/Reasonable Accommodation	FTE
Overtime Utilities	FTE
Personnel Service Support	FTE
Security Investigations	Actual
SES Forums	Actual
Telecenter/Flexiplace Program	FTE *
The Learning Network Framework Implementation	FTE
Training Staff and Counseling	FTE
Transit Subsidy	Actual
Work/Life Center Support Service	FTE
Work/Life Programs/Services in Regions	FTE
Copier Equipment Operations/Maintenance	Actual
Automated Data Processing (ADP) Services Contracts	Actual
Group Systems Technical Support	Actual
The Learning Network Technical Support	Actual
Supplies	Actual
Supplies – Human Resource Group	Actual
Supplies – Section 504	Actual
Supplies – Training and Development Group	Actual
Supplies – Work/Life Programs Group	Actual
Classroom ADP Equipment Upgrades	Actual
Reasonable Accommodation/ADP Equip & Software	Actual

* Beginning with FY 2003, these expenses are now allocated based on actual use.

Central Support Expenses (Continued)	**Method**
Regional ADP Equipment Upgrades	Actual
Server/Software for Virtual Classrooms	Actual
Furniture and Equipment – Training and Development	Actual
Furniture and Equipment – Work/Life Programs	Actual
Kansas City Relocation	Actual
MES Modernization Project	Actual
San Francisco Relocation Project	Actual
Standard Furniture and Equipment	Actual
ROB-3 Modernization Project	Actual
Security – Install Guard Booths/Barriers	Actual
Security – Reduce Pedestrian Entrances	Actual
Security – Upgrade Security Control Room	Actual
Standard Building Alterations	Actual
Central IT and Telecommunications Expenses[3]	
Cable Television	FTE
Communications	FTE
Outreach Program	FTE
Asset Management	FTE
Automated Case Management System	FTE
Data Standardization and Coordination	FTE
Department of Education Information Collection System	FTE
Electronic Records Management	FTE
Enterprise Intranet	FTE
Freedom of Information Act	FTE
Government Paperwork Elimination Act	FTE
Information Management	FTE
Internet	FTE
Information Technology Architecture	FTE
Information Technology Investment Management	FTE
Information Technology Security	FTE
Network Operations	FTE
Warmsite Engineering Services	FTE
Emerging and Assistive Technology	FTE
Reliable Network	FTE
Software Licensing	FTE
Video Teleconferencing	FTE
Call Support Services	FTE
Dedicated Circuits	FTE
Local Services	FTE
Long Distance Services	FTE
Technology Support	FTE

[3] For FY 2004-2005, the Department plans to allocate costs for projects in Central IT and Telecommunications based on the numbers of network accounts assigned to a PO/Program, rather than on FTE.

Central IT and Telecommunications Expenses (Continued)	**Method**
Asset Management	FTE
Automated Case Management System	FTE
Data Standardization and Coordination	FTE
Department of Education Information Collection System	FTE
Electronic Records Management	FTE
Enterprise Intranet	FTE
Freedom of Information Act	FTE
Government Paperwork Elimination Act	FTE
Information Management	FTE
Internet	FTE
Information Technology Architecture	FTE
Information Technology Investment Management	FTE
Information Technology Security	FTE
Network Operations	FTE
Warmsite Engineering Services	FTE
Emerging and Assistive Technology	FTE
Reliable Network	FTE
Software Licensing	FTE
Video Teleconferencing	FTE
Call Support Services	FTE
Dedicated Circuits	FTE
Local Services	FTE
Long Distance Services	FTE
Technology Support	FTE

FY 2002 Allocations – Original Allocations versus FTE Calculations

Account	FTE Percent[4]	Original Allocation[5]	Allocation Based on FTE[6]	Dollar Difference	Percent Difference
Asset Management (Enterprise Lifecycle Management Support)					
Program Administration	58%	$359,900	$353,800	$6,100	1.7%
Direct Loans/FSA	12%	$73,200	$73,200	$0	0.0%
FFELP	8%	$48,800	$48,800	$0	0.0%
OCR	16%	$91,500	$97,600	$(6,100)	-6.3%
OIG	6%	$36,600	$36,600	$0	0.0%
Total	100%	$610,000	$610,000	$0	0.0%
Automated Case Management System					
Program Administration	58%	$174,800	$172,840	$1,960	1.13%
Direct Loans/FSA	12%	$36,000	$35,760	$240	0.67%
FFELP	8%	$23,200	$23,840	$(640)	-2.68%
OCR	16%	$46,000	$47,680	$(1,680)	-3.52%
OIG	6%	$18,000	$17,880	$120	0.67%
Total	100%	$298,000	$298,000	$0	0.0%
Data Standardization & Coordination					
Program Administration	58%	$1,770,000	$1,740,000	$30,000	1.7%
Direct Loans/FSA	12%	$360,000	$360,000	$0	0.0%
FFELP	8%	$240,000	$240,000	$0	0.0%
OCR	16%	$450,000	$480,000	$(30,000)	-6.3%
OIG	6%	$180,000	$180,000	$0	0.0%
Total	100%	$3,000,000	$3,000,000	$0	0.0%
ED Information Collection Management and Analysis System (EDICS)					
Program Administration	58%	$177,000	$174,000	$3,000	1.7%
Direct Loans/FSA	12%	$36,000	$36,000	$0	0.0%
FFELP	8%	$24,000	$24,000	$0	0.0%
OCR	16%	$45,000	$48,000	$(3,000)	-6.3%
OIG	6%	$18,000	$18,000	$0	0.0%
Total	100%	$300,000	$300,000	$0	0.0%
Enterprise Electronic Records Management Application Initiative					
Program Administration	58%	$398,300	$392,080	$6,220	1.6%
Direct Loans/FSA	12%	$81,100	$81,120	$(20)	-0.0%
FFELP	8%	$54,100	$54,080	$20	0.0%
OCR	16%	$101,900	$108,160	$(6,260)	-5.8%
OIG	6%	$40,600	$40,560	$40	0.1%
Total	100%	$676,000	$676,000	$0	0.0%

[4] Obtained from OCFO staff who used the FTE percentages to calculate the original allocations.
[5] Based on original FY 2002 project worksheets (developed in FY 2000).
[6] OIG calculation based on total projected project costs x FTE percentages.

Account	FTE Percent	Original Allocation	Allocation Based on FTE	Dollar Difference	Percent Difference
Enterprise Intranet					
Program Administration	58%	$885,000	$870,000	$15,000	1.7%
Direct Loans/FSA	12%	$180,000	$180,000	$0	0.0%
FFELP	8%	$120,000	$120,000	$0	0.0%
OCR	16%	$225,000	$240,000	$(15,000)	-6.3%
OIG	6%	$90,000	$90,000	$0	0.0%
Total	100%	$1,500,000	$1,500,000	$0	0.0%
FOIA/PA Tracking System					
Program Administration	58%	$87,000	$87,000	$0	0.0%
Direct Loans/FSA	12%	$19,000	$18,000	$1,000	5.6%
FFELP	8%	$12,000	$12,000	$0	0.0%
OCR	16%	$23,000	$24,000	$(1,000)	-4.2%
OIG	6%	$9,000	$9,000	$0	0.0%
Total	100%	$150,000	$150,000	$0	0.0%
Information Management					
Program Administration	58%	$430,700	$423,400	$7,300	1.7%
Direct Loans/FSA	12%	$87,600	$87,600	$0	0.0%
FFELP	8%	$58,400	$58,400	$0	0.0%
OCR	16%	$109,500	$116,800	$(7,300)	-6.3%
OIG	6%	$43,800	$43,800	$0	0.0%
Total	100%	$730,000	$730,000	$0	0.0%
Internet Activities					
Program Administration	58%	$6,162,000	$6,056,940	$105,060	1.7%
Direct Loans/FSA	12%	$1,253,000	$1,253,160	$(160)	-0.0%
FFELP	8%	$835,000	$835,440	$(440)	-0.1%
OCR	16%	$1,566,000	$1,670,880	$(104,880)	-6.3%
OIG	6%	$627,000	$626,580	$420	0.1%
Total	100%	$10,443,000	$10,443,000	$0	0.0%
IT Architecture					
Program Administration	58%	$531,000	$522,000	$9,000	1.7%
Direct Loans/FSA	12%	$108,000	$108,000	$0	0.0%
FFELP	8%	$72,000	$72,000	$0	0.0%
OCR	16%	$135,000	$144,000	$(9,000)	-6.3%
OIG	6%	$54,000	$54,000	$0	0.0%
Total	100%	$900,000	$900,000	$0	0.0%

Account	FTE Percent	Original Allocation	Allocation Based on FTE	Dollar Difference	Percent Difference
IT Investment Management					
Program Administration	58%	$342,200	$336,400	$5,800	1.7%
Direct Loans/FSA	12%	$69,600	$69,600	$0	0.0%
FFELP	8%	$46,400	$46,400	$0	0.0%
OCR	16%	$87,000	$92,800	$(5,800)	-6.3%
OIG	6%	$34,800	$34,800	$0	0.0%
Total	100%	$580,000	$580,000	$0	0.0%
Information and Critical Infrastructure Assurance Program (IT Security)					
Program Administration	58%	$964,700	$948,300	$16,400	1.7%
Direct Loans/FSA	12%	$196,200	$196,200	$0	0.0%
FFELP	8%	$130,800	$130,800	$0	0.0%
OCR	16%	$245,300	$261,600	$(16,300)	-6.2%
OIG	6%	$98,000	$98,100	$(100)	-0.1%
Total	100%	$1,635,000	$1,635,000	$0	0.0%
Network Operations					
Program Administration	58.2%	$13,226,840	$13,082,196	$144,644	1.1%
Direct Loans/FSA	12.2%	$2,697,120	$2,742,316	$(45,196)	-1.6%
NAGB	0.3%	$34,000	$67,434	$(33,434)	-49.6%
FFELP	7.8%	$1,798,080	$1,753,284	$44,796	2.6%
OCR	15.4%	$3,371,400	$3,461,612	$(90,212)	-2.6%
OIG	6.1%	$1,350,560	$1,371,158	$(20,598)	-1.5%
Total	100%	$22,478,000	$22,478,000	$0	0.0%
Atlanta Technology Support Center (Warmsite)					
Program Administration	58%	$2,033,720	$1,999,254	$34,466	1.7%
Direct Loans/FSA	12%	$413,640	$413,639	$1	0.0%
FFELP	8%	$275,760	$275,759	$1	0.0%
OCR	16%	$517,050	$551,518	$(34,468)	-6.2%
OIG	6%	$206,820	$206,819	$1	0.0%
Total	100%	$3,446,990	$3,446,990	$0	0.0%
Call Support Systems					
Program Administration	58%	$796,500	$783,000	$13,500	1.7%
Direct Loans/FSA	12%	$162,000	$162,000	$0	0.0%
FFELP	8%	$108,000	$108,000	$0	0.0%
OCR	16%	$202,500	$216,000	$(13,500)	-6.3%
OIG	6%	$81,000	$81,000	$0	0.0%
Total	100%	$1,350,000	$1,350,000	$0	0.0%

Account	FTE Percent	Original Allocation	Allocation Based on FTE	Dollar Difference	Percent Difference
Dedicated and Switched Data Circuits					
Program Administration	58%	$1,811,300	$1,781,180	$30,120	1.7%
Direct Loans/FSA	12%	$368,400	$368,520	$(120)	-0.0%
FFELP	8%	$246,600	$245,680	$920	0.4%
OCR	16%	$460,500	$491,360	$(30,860)	-6.3%
OIG	6%	$184,200	$184,260	$(60)	-0.0%
Total	100%	$3,071,000	$3,071,000	$0	0.0%
Local Services					
Program Administration	57.93%	$5,501,250	$5,430,938	$70,313	1.3%
Direct Loans/FSA	12.11%	$1,125,000	$1,135,313	$(10,313)	-0.9%
NAGB	0.30%	$12,000	$28,125	$(16,125)	-57.3%
NIL	0.30%	$8,000	$28,125	$(20,125)	-71.6%
FFELP	7.81%	$750,000	$732,188	$17,813	2.4%
OCR	15.36%	$1,406,250	$1,440,000	$(33,750)	-2.3%
OIG	6.04%	$562,500	$566,250	$(3,750)	-0.7%
NERPPB	0.00%	$0	$0	$0	0.0%
CHAFL	0.13%	$8,000	$12,188	$(4,188)	-34.4%
HBCU	0.02%	$2,000	$1,875	$125	6.7%
Total	100.0%	$9,375,000	$9,375,000	$0	0.0%
Long Distance					
Program Administration	58%	$1,660,850	$1,632,700	$28,150	1.7%
Direct Loans/FSA	12%	$337,800	$337,800	$0	0.0%
FFELP	8%	$225,200	$225,200	$0	0.0%
OCR	16%	$422,250	$450,400	$(28,150)	-6.3%
OIG	6%	$168,900	$168,900	$0	0.0%
NAGB	0%	$0	$0	$0	0.0%
CHAFL	0%	$0	$0	$0	0.0%
NIL	0%	$0	$0	$0	0.0%
HBCU	0%	$0	$0	$0	0.0%
NERPPB	0%	$0	$0	$0	0.0%
Total	100%	$2,815,000	$2,815,000	$0	0.0%
Telecommunications Support					
Program Administration	58%	$147,500	$145,000	$2,500	1.7%
Direct Loans/FSA	12%	$30,000	$30,000	$0	0.0%
FFELP	8%	$20,000	$20,000	$0	0.0%
OCR	16%	$37,500	$40,000	$(2,500)	-6.3%
OIG	6%	$15,000	$15,000	$0	0.0%
Total	100%	$250,000	$250,000	$0	0.0%

FY 2002 Original Allocations versus Actual Expenses

Project Title	Original FY 2002 Budget Allocation	FY 2002 Actual Expenses Charged	Dollar Difference -- Original Allocation vs. Actual Expenses	Percent Difference
Asset Management (Enterprise Lifecycle Management Support)				
Program Administration	$359,900	$224,000	$(135,900)	-37.8%
Direct Loan	$73,200	$73,000	$(200)	-0.3%
FFELP	$48,800	$49,000	$200	0.4%
OCR	$91,500	$92,000	$500	0.5%
OIG	$36,600	$36,000	$(600)	-1.6%
Total	$610,000	$474,000	$(136,000)	-22.3%
Automated Case Management				
Program Administration	$174,800	$0	$(174,800)	-100.0%
Direct Loan	$36,000	$36,000	$0	0.0%
FFELP	$23,200	$24,000	$800	3.4%
OCR	$46,000	$46,000	$0	0.0%
OIG	$18,000	$19,000	$1,000	5.6%
Total	$298,000	$125,000	$(173,000)	-58.1%
Data Standardization & Coordination				
Program Administration	$1,770,000	$1,246,000	$(524,000)	-29.6%
Direct Loan	$360,000	$144,000	$(216,000)	-60.0%
FFELP	$240,000	$0	$(240,000)	-100.0%
OCR	$450,000	$0	$(450,000)	-100.0%
OIG	$180,000	$0	$(180,000)	-100.0%
Total	$3,000,000	$1,390,000	$(1,610,000)	-53.7%
Education Department's Information Collection System				
Program Administration	$177,000	$179,000	$2,000	1.1%
Direct Loan	$36,000	$36,000	$0	0.0%
FFELP	$24,000	$11,000	$(13,000)	-54.2%
OCR	$45,000	$0	$(45,000)	-100.0%
OIG	$18,000	$0	$(18,000)	-100.0%
Total	$300,000	$226,000	$(74,000)	-24.7%
Electronic Records Management				
Program Administration	$398,300	$353,000	$(45,300)	-11.4%
Direct Loan	$81,100	$78,000	$(3,100)	-3.8%
FFELP	$54,100	$54,000	$(100)	-0.2%
OCR	$101,900	$98,000	$(3,900)	-3.8%
OIG	$40,600	$39,000	$(1,600)	-3.9%
Total	$676,000	$622,000	$(54,000)	-8.0%

Project Title	Original FY 2002 Budget Allocation	FY 2002 Actual Expenses Charged	Dollar Difference -- Original Allocation vs. Actual Expenses	Percent Difference
Enterprise Intranet				
Program Administration	$885,000	$550,000	$(335,000)	-37.9%
Direct Loan	$180,000	$108,000	$(72,000)	-40.0%
FFELP	$120,000	$24,000	$(96,000)	-80.0%
OCR	$225,000	$45,000	$(180,000)	-80.0%
OIG	$90,000	$18,000	$(72,000)	-80.0%
Total	$1,500,000	$745,000	$(755,000)	-50.3%
FOIA/PA Tracking and Reporting System				
Program Administration	$87,000	$344,000	$257,000	295.4%
Direct Loan	$19,000	$6,000	$(13,000)	-68.4%
FFELP	$12,000	$6,000	$(6,000)	-50.0%
OCR	$23,000	$6,000	$(17,000)	-73.9%
OIG	$9,000	$6,000	$(3,000)	-33.3%
Total	$150,000	$368,000	$218,000	145.3%
Information Management				
Program Administration	$430,700	$100,000	$(330,700)	-76.8%
Direct Loan/FSA	$87,600	$88,000	$400	0.5%
FFELP	$58,400	$0	$(58,400)	-100.0%
OCR	$109,500	$80,000	$(29,500)	-26.9%
OIG	$43,800	$44,000	$200	0.5%
Total	$730,000	$312,000	$(418,000)	-57.3%
Internet Activities				
Program Administration	$6,162,000	$4,275,000	$(1,887,000)	-30.6%
Direct Loan	$1,253,000	$249,000	$(1,004,000)	-80.1%
FFELP	$835,000	$101,000	$(734,000)	-87.9%
OCR	$1,566,000	$196,000	$(1,370,000)	-87.5%
OIG	$627,000	$78,000	$(549,000)	-87.6%
Total	$10,443,000	$4,899,000	$(5,544,000)	-53.1%
IT Architecture				
Program Administration	$531,000	$789,000	$258,000	48.6%
Direct Loan	$108,000	$108,000	$0	0.0%
FFELP	$72,000	$72,000	$0	0.0%
OCR	$135,000	$135,000	$0	0.0%
OIG	$54,000	$54,000	$0	0.0%
Total	$900,000	$1,158,000	$258,000	28.7%
IT Investment Management				
Program Administration	$342,200	$336,000	$(6,200)	-1.8%
Direct Loan	$69,600	$70,000	$400	0.6%
FFELP	$46,400	$46,000	$(400)	-0.9%
OCR	$87,000	$87,000	$0	0.0%
OIG	$34,800	$35,000	$200	0.6%
Total	$580,000	$574,000	$(6,000)	-1.0%

Project Title	Original FY 2002 Budget Allocation	FY 2002 Actual Expenses Charged	Dollar Difference -- Original Allocation vs. Actual Expenses	Percent Difference
Information and Critical Infrastructure Assurance Program (IT Security)				
Program Administration	$964,700	$1,896,000	$931,300	96.5%
Direct Loan	$196,200	$212,000	$15,800	8.1%
FFELP	$130,800	$131,000	$200	0.2%
OCR	$245,300	$128,000	$(117,300)	-47.8%
OIG	$98,000	$98,000	$0	0.0%
Total	$1,635,000	$2,465,000	$830,000	50.8%
Network Operations				
Program Administration	$13,226,840	$11,270,000	$(1,956,840)	-14.8%
Direct Loan	$2,697,120	$3,266,000	$568,880	21.1%
FFELP	$1,798,080	$1,798,000	$(80)	-0.0%
OCR	$3,371,400	$3,141,000	$(230,400)	-6.8%
OIG	$1,350,560	$1,238,000	$(112,560)	-8.3%
NAGB	$34,000	$34,000	$0	0.0%
Total	$22,478,000	$20,747,000	$(1,731,000)	-7.7%
Atlanta Technology Support Center (Warmsite)				
Program Administration	$2,033,720	$4,093,000	$2,059,280	101.3%
Direct Loan	$413,640	$0	$(413,640)	-100.0%
FFELP	$275,760	$0	$(275,760)	-100.0%
OCR	$517,050	$0	$(517,050)	-100.0%
OIG	$206,820	$0	$(206,820)	-100.0%
Total	$3,446,990	$4,093,000	$646,010	18.7%
Totals by Account				
Program Administration	$27,543,160	$25,655,000	$(1,888,160)	-6.9%
Direct Loan	$5,610,460	$4,474,000	$(1,136,460)	-20.3%
FFELP	$3,738,540	$2,316,000	$(1,422,540)	-38.1%
OCR	$7,013,650	$4,054,000	$(2,959,650)	-42.2%
OIG	$2,807,180	$1,665,000	$(1,142,180)	-40.7%
NAGB	$34,000	$34,000	$0	0.0%
Total	$46,746,990	$38,198,000	$(8,548,990)	-18.3%

IT Services/Communications: Actual Expenses Not Charged to POs/Programs for which the Expense Was Incurred

Type	OCR or Prog. Admin. (PA)	Purchase Order/ Contract Number	Date	Amount	Vendor	Description
Charges to OCR for expenses that did not benefit OCR, or also benefited other POs/Programs						
IT Services	OCR	ED01PO1114	Mar 02	$2,997.00	Silent Partner	Card readers in OCIO space
IT Services	OCR	ED01PO1114	Mar 02	$500.00	Silent Partner	Equip for Closed Circuit TV Union Station
IT Services	OCR	ED01PO1114	Mar 02	$135.00	Silent Partner	Equip for Closed Circuit TV Union Station
IT Services	OCR	ED01PO1114	Mar 02	$250.00	Silent Partner	Equip for Closed Circuit TV Union Station
IT Services	OCR	ED01PO1114	Apr 02	$1,228.00	Unitech	Web-based IT security training (5500 licenses)
IT Services	OCR	ED01PO1114	Apr 02	$600.00	Unitech	Web-based IT security training (5500 licenses)
Communications	OCR	ED01PO0890	May 02	$112.87	PRT	OIG telephone service in Puerto Rico
Communications	OCR	ED01PO0890	Jun 02	$76.98	PRT	OIG telephone service in Puerto Rico
Communications	OCR	ED01PO0682	Jul 02	$78.41	Bell South	Telephone – Program Admin. PO
Communications	OCR	MR96026101	Jul 02	$8,931.68	SW Bell	Telephone – Dept Regional Offices
Total -- 10 charges				Mar 02		
Charges to Program Administration that also benefited other accounts, should have been distributed						
IT Services	PA	ED00CO0054	Jul 02	$32,814.19	DST, Inc.	Labor & materials (wireless phones)
IT Services	PA	ED00CO0054	Feb 02	$37,105.62	SAIC	Network services
IT Services	PA	ED01PO1114	Apr 02	$23,800.00	Silent Partner	Equip & install for Atlanta project
Total -- 3 charges				$93,719.81		
Charges to Program Administration for expenses that should have been charged to OCR						
Communications	PA	ED01PO0850	Sep 02	$276.32	Qwest	Telephone – OCR
Communications	PA	ED01PO0850	Sep 02	$256.32	Qwest	Telephone – OCR
Total -- 2 charges				$532.64		

Type	OCR or Prog. Admin. (PA)	Purchase Order/ Contract Number	Date	Amount	Vendor	Description
Phone service charged to OCR when the user could not be identified						
Communications	OCR	ED01PO0682	Jul 02	$147.71	Bell South	Telephone – Location/User Unknown
Communications	OCR	ED01PO0682	Jul 02	$99.49	Bell South	Telephone – Location/User Unknown
Communications	OCR	ED01PO0682	Jul 02	$465.45	Bell South	Telephone – Location/User Unknown
Communications	OCR	ED01PO0682	Aug 02	$193.45	Bell South	Telephone – Location/User Unknown
Communications	OCR	ED01PO0682	Sep 02	$60.47	Bell South	Telephone – Location/User Unknown
Communications	OCR	ED01PO0682	Sep 02	$65.60	Bell South	Telephone – Location/User Unknown
Total -- 6 charges				$1,032.17		
Phone services charged to Program Administration when the user could not be identified						
Communications	PA	ED01PO0851	Jun 02	$49.38	Qwest	Telephone – Salt Lake City, User Unknown
Communications	PA	ED01PO0851	Aug 02	$57.26	Qwest	Telephone – Salt Lake City, User Unknown
Communications	PA	ED01PO0852	Jul 02	$73.38	Qwest	Telephone – Minneapolis, User Unknown
Communications	PA	ED01PO0852	Aug 02	$40.67	Qwest	Telephone – Minneapolis, User Unknown
Communications	PA	ED01PO0854	Apr 02	$50.10	Qwest	Telephone – Phoenix, User Unknown
Communications	PA	ED01PO0854	Sep 02	$49.36	Qwest	Telephone – Phoenix, User Unknown
Communications	PA	ED01PO0854	Sep 02	$51.54	Qwest	Telephone – Phoenix, User Unknown
Total -- 7 charges				$371.69		
Subtotal 13 Telephone Charges – Users Unknown				**$1,403.86**		
Grand Total -- 28 charges				**$110,566.25**		

MEMORANDUM

TO: Helen Lew
Assistant Inspector General
for Audit

FROM: William J. Leidinger
Assistant Secretary

Dr. Eugene Hickok
Acting Deputy Secretary
Office of Deputy Secretary

SUBJECT: Draft Audit Report of Allocation of Common Support Expenses (ED-OIG/A19-D0003)

This is the Office of Management (OM) and Office of the Deputy Secretary response to the March 1, 2004, Office of Inspector General (OIG) draft audit report (ED/OIG/A-19-D003).

Attached are the comments from the Office of Management Executive Office and Office of Deputy Secretary, Budget Service in response to the OIG report.

If you have any questions, please do not hesitate to contact me at (202) 260-0563, or Keith Berger at (202) 401-0693.

Attachment

Comments on Draft Audit Reports ED-OIG/A19-D0003, March 2004
Audit of Allocation of Common Support Expenses

1. Executive Summary

a. The Executive Summary should state that the period audited, FY 2002, occurred during a time when the Office of Management (OM) was not assigned the responsibility for the allocation of Information Technology common support expenses. You state this in the Background area of the report, but it needs to be included as well in this important first section. We would like this distinction because in Finding 1, there is nothing regarding the non-IT common support function that was OM's responsibility, which leads us to believe that the procedures and execution of the common support expenses were being done properly.

b. OIG continues to request that a Department Directive be developed. We continue to strongly oppose this recommendation. As you indicated in your review, the Department's Directive System would not prohibit a directive. However, the process of creating directives, processing for clearance and making changes is not conducive to the Directive process.

> Problem 1: Directives are circulated Department-wide for comment. Most offices have no stake in the common support formulation process because OM is tasked with funding Department operations centrally. Yet, these offices may come in and propose changes, offer opinions, request modifications to a Directive that does not impact their office.
>
> Problem 2: Directives are the formal way to lay down policy on areas that are fairly static and not prone to change much. The common support formulation process is very dynamic and changes frequently in that methodologies change, and projects are being added, changed and eliminated. If such a Directive exists, all changes, no matter how minor, would require a re-submission for comment to all offices in the Department.

2. Background.

a. In the first paragraph, you should add that OM currently manages the common support expense allocation process. You don't state that until the 2nd paragraph. Maybe move that sentence to the first paragraph.

b. Delete the third bullet in the third paragraph. This account no longer exists.

c. In the fourth paragraph, last line, insert “The National Board for Education Statistics (NBES), formerly the “National Education Research Policies and Priorities Board (NERPPB).

d. In the fifth paragraph, first sentence, should state "In FY 2002, costs…"

3. Audit Results, Finding 1 (Concur and Non-concur, see below)

a. Title for Finding No. 1 should probably be "The Department Did Not Have….". Title alludes to a current situation, which is not covered in this report.

b. Page 6, should continue to indicate that the analysis was conducted during the FY 2002 period of time.

c. Page 7, the OIG continues to ignore the problems of budget formulation where initial budgets, which are formulated based on assumptions, methodologies and procedures at one stage of the process, can be radically altered by the time funds are appropriated by Congress. The OIG desires logical answers and clear-cut methodologies that are anything but. Multiple cycles of the budget formulation process exist and for a given year, funding levels can be changed during any of the cycles: Office Request, Analyst Recommendation, ABAD Recommendation, Budget Services Recommendation, OMB Request, President's Budget, Revised Office Request, Revised Analyst Recommendation, Revised ABAD Recommendation, Revised Budget Service Recommendation, Revised OMB Budget, Revised President's Budget, and Allocation.

During these cycles, the Office Request can be changed for a variety of reasons: FTE projection changes, office requirements' changes, reductions taken to accommodate other office needs, OMB and Congressional cuts and rescissions, internal funding shortfalls like payroll requiring further reductions in administrative projects. These all change the dynamics of the final allocation of funds to a particular office. How do you address funding shortfalls in some offices? How do you re-distribute those costs that were calculated and reviewed six months to a year prior? These are problems that are constantly faced every year. These are not "cut and dried" situations. They often cannot be resolved on an equitable basis because an office cannot be forced to fund something that was cut, reduced or eliminated from their budget. What kind of reasonableness would the OIG auditors deem acceptable?

5. Recommendations

1.1. Develop a methodology for appropriately allocating common support expenses

a. OM will concur.

Both the Budget Service and OM will document and provide reasons why adjustments are made during the many cycles of the budget process. The Budget Service has always documented changes to the original allocations of common support expenses. This is done in each of the budget cycles noted above. As changes to funding levels occur, all changes are documented in the appropriate budget cycle. Contrary to the information on page 8, the budget formulation database DOES have the capacity to provide comments at the project level. Therefore, the Budget Service will provide reasons for adjustments to a particular project in the comments section of the database, as necessary. OM will start to notate when changes occur to actual allocations of funding. We will determine the best way to report these changes to offices, either through email, change log on OM's IAS system, etc.

b. OM will concur.

Currently, OM is making a concerted effort to ensure that funds benefit the office when they are used on a project or contract. Additionally, we will make available a formulation worksheet that identifies project/contract, method of allocation, and individual inclusions or exclusions when all offices are not affected. This will be made available in the S&E Budget Request guidance in May, and will be included in the Budget Service's Budget Formulation Database System in the instructions section. OM will work to get this added to it's own website as a resource for all interested offices.

c. OM must non-concur.

This recommendation is impractical because it will not work all of the time. This assumes that an actual expense will be paid for by an office. However, OM cannot dictate to an office which has limited resources the expectation that they will be required to fund an old activity in which the funding has been cut or a new activity where funding was never requested. In this situation, it has always been the responsibility of OM/OCIO to fund shortfalls on any mandated and approved project regardless of office contribution. This is a fact of budget formulation and execution that just cannot be followed through on all the time. This is where our review of activities can show decreases in one area that can offset increases in other areas. The idea is to use the total allocation of funding without having to request additional funding from offices that cannot provide it. As stated in 1.1.a, we shall document these kinds of changes.

d. OM will concur.

There are many avenues for these offices to monitor their expenditures. We have provided access to the OM IAS system that affords offices a detailed status of funds and identifies projects and contracts being funded from their accounts. Many have had access, but few currently use. We have gone out and requested they update their staff that potentially can have access to the IAS. We are in the process of establishing a larger user base that may increase their usage of the system reports. There are Departmental systems and reports also available that also provide a variety of information. These include the FMSS, the Budget Formulation Database System, and the COGNOS system for customized reports. OM also provides a spreadsheet of projects and contracts at different times in the year for their information.

1.2 The disconnection of the 13 telephone service accounts has been completed. The 6 Bell South lines were disconnected in November 2003. The Qwest lines were disconnected on March 22, 2004. The disconnection of the Qwest lines was requested at the same time as Bell South in November 2003, but we discovered that there was miscommunication between GSA and Qwest during the transition from Qwest to GSA.

6. Finding No. 2 (Non-concur)

a. As indicated under Executive Summary, OIG continues to request that a Department Directive be developed. We continue to strongly oppose this recommendation. As you indicated in your review, the Department's Directive System would not prohibit a directive. However, the process of creating directives, processing for clearance and making changes is not conducive to the Directive process.

Problem 1: Directives are circulated Department-wide for comment. Most offices have no stake in the common support formulation process because OM is tasked with funding Department operations centrally. Yet, these offices may come in and propose changes, offer opinions, request modifications to a Directive that does not impact their office.

Problem 2: Directives are the formal way to lay down policy on areas that are fairly static and not prone to change much. The common support formulation process is very dynamic and changes frequently in that methodologies change, projects are being added, changed and eliminated. If such a Directive exists, all changes, no matter how minor would require a re-submission for comment to all offices in the Department.

It is our recommendation that in conjunction with the Budget Service, OM will create a policy document that will provide explanation and clarification of the budget formulation process. It will allow OM and Budget Service to update as needed, whenever it is needed, and will not require a formal process to make this kind of information available.

There are some offices, like the OCFO, that provide a detailed and extensive listing of policy and procedure documents on-line, through their intranet website. These are not formally done through a Department-wide distribution process, but are created and maintained as needs dictate. Changing these listings can be done quickly and provide up-to-date documentation for all offices. OM and Budget Service would like to implement something along these lines. We will place a listing that can be accessed by all offices through our intranet website that will always have the latest budget formulation data. In our view, this is more appropriate and can be managed easily and still will meet the OIG requirements of disclosure.

Included with this document and/or in conjunction with it, a more detailed procedural document will be created for internal use in OM that will outline a more detailed explanation of common support formulation procedures.

7. Recommendations

2.1. Non-concur. Reasons and our recommendation stated above.

Attachment D

CENTRAL SUPPORT FUNDS INSTRUCTIONS

The Office of Management will make the request for Central Support funds for all Salaries and Expenses accounts. Budget requests for each project/object class for 2005 and 2006 should be distributed among the accounts as accurately as possible and only to those offices that benefit from a particular project. The following methodologies should be used to allocate these costs:

1. actual costs as documented from current and previous years' records;
2. proration of costs based on FTE levels; or
3. other methods as indicated

For all accounts other than Program Administration, the Office of Management's Executive Office should inform each of the Department's components with primary responsibility for any Salaries and Expenses account of the levels of the 2005 revised request and 2006 request within a reasonable time before the June 23 Budget Service deadline for budget submission. Offices with primary responsibility for Salaries and Expenses accounts may also view the OM requests in report A-2 of the database.

As part of the 2006 budget submission for Central Support, the following exhibits should be submitted with the rest of the Office of Management (OM) budget materials.

1) **Interagency Agreements**: Provide a brief purpose statement on a separate attachment for each interagency agreement listed and an explanation of any cost increases/decreases in the Department total for 2005 and 2006. Follow the general guidelines for justifying increases/decreases above the President's budget.

2) **Rent**: Provide OMB Exhibit 54 – Rental Payments for Space and Land. Please submit a copy of the back-up rent worksheet (detailed by building/appropriations) along with a narrative to describe current plans, including space reduction achievements in 2004 and future space plans reflecting reductions, additions, and special space requirements in the regions and headquarters.

3) **Postage**: Provide a breakout by principal office and by contract where applicable, of actual costs for 2003, 2004 estimates, and projections for 2005 and 2006. Provide a narrative explanation justifying any cost increases/decreases, such as higher volume for specific purposes or postal rate changes, in 2005 and 2006.

The attachment provides an explanation by object class of the methodology used to develop the Common Support budget request for the Office of Management and how the costs are distributed. However, as additional information and data are obtained, these methodologies may be subject to revisions.

Attachment E

CENTRAL INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS FUNDS INSTRUCTIONS

The Office of the Chief Information Officer will make the request for Central Information Technology and Telecommunications funds for all Salaries and Expenses accounts. Budget requests for each project/object class for 2005 and 2006 should be distributed among the accounts as accurately as possible and only to those offices that benefit from a particular project. The following methodologies should be used to allocate these costs:

1. actual costs as documented from current and from previous years' records;
2. proration of costs based on network connectivity or FTE levels; or
3. other methods as indicated

For all accounts other than Program Administration, the Office of the Chief Information Officer's Executive Office should inform each of the Department's components with primary responsibility for any Salaries and Expenses account of the levels of the 2005 revised request and 2006 request within a reasonable time before the June 23 deadline for submission of budget requests. Offices with primary responsibility for Salaries and Expenses accounts may also view the OCIO requests in report A-2 of the database.

The 2005 revised requests and 2006 requests should continue the policy of centralized budgeting for IT equipment for use by individual staff and contract support personnel within the CIT budget, rather than in each individual office. Only funds necessary for miscellaneous IT purchases (e.g. Blackberries, cell phones, pagers, etc.) should be included in non-OCIO office requests.

The attachment provides an explanation by object class of the methodology used to develop the Central Information Technology and Telecommunications budget requests for the Office of Chief Information Officer and how the costs are distributed. However, as additional information and data are obtained, these methodologies may be subject to revisions.

Allocation Methodology Information Technology and Telecommunication
Office of the Chief Information Officer

Method: Network = Unique accounts on ED network

Actual = Actual Costs/Charges based on Prior Year

FTE = Full time PO Staff

Object Class		Proj Code	OCIO Office	Method	Charged to Account	Notes
23.31	Communications/Leases					
	Call Support Services	1S	TC	Network	Yes	Working towards actual charges
	Dedicated Circuits	1G	TC	Network	Yes	Working towards actual charges
	Local Services	1P	TC	Network	Yes	Working towards actual charges
	Long Distance Services	1A	TC	Network	Yes	Working towards actual charges
	Technology Support (Telecom.)	1M	TC	Network	Yes	
	Warmsite Dedicated Circuits	WE	IT	Network	Yes	
	Cable monthly services	UI	IT	Network	Yes	Working towards actual charges
25.21	Other Services		IT	Actual	No	
25.22	Training		IT	Actual	No	
25.30	Interagency Agreements					
	NARA	NR	IM	Actual	Yes	
	Dallas Move Services	DA	IT	Network	Yes	
	Chicago Move Services	CH	IT	Network	Yes	
	New York Move Services	NY	IT	Network	Yes	
	San Francisco Mover Services	SF	IT	Network	Yes	
25.71	Repair and Maintenance					
	VTC Equipment	VT	IT	Network	Yes	
	Software Maintenance	FB	IT	Network	Yes	
25.72	ADP Contracts and Services					
	E-Travel	EV	IT	Actual	No	
	E-Training	ET	IT	Actual	No	
	Certification Review Group	WG	ES/IA	Network	No	
	Integrated Acquisition	IA	IT	Actual	No	
	Internet Redesign	IR	IM	Network	No	
	E-Loans	EL	IT	Actual	No	FSA only
	E-Authentication	EA	IT	Actual	No	FSA only
	E-Benefits	EB	IT	Actual	No	FSA only
	EDICS	A1	IM	Network	Yes	Limited to PA, FSA and OCR
	Electronic Records Management	RM	IM	FTE	Yes	Excludes FSA, OCR and OSERS
	Enterprise Intranet	EI	IM	Network	Yes	
	Enterprise Lifecycle Mgmt Support	AM	IT	Network	Yes	
	FOIAS	TL	IM	Actual	Yes	
	GPEA	PR	ES/IA	Actual	No	
	Internet	KJ	IM	Network	Yes	
	IT Architecture	NM	IM	Network	Yes	Limited to PA and FSA
	IT for Building Modernization	BM	IT	Actual	No	

	IT Installation / Disposal	ID	IT	Network	Yes	
	IT Investment Management	VM	ES/IA	Network	Yes	Limited to PA, FSA, OCR and OIG
	IT Security	WF	ES/IA	Network	Yes	
	Program Management Support	PM	ES/IA	Network	No	
	Network Operations	SL	IT	Network	Yes	
	Reliable Network	RX	IT	Network	Yes	
	Video Teleconferencing	VT	IT	Network	Yes	
	Emerging and Assistive Technology	XV	IT	FTE	Yes	Limited to PA, FSA and OCR
	Blackberry Services	BB	IT	Actual	Yes	
26.01	Supplies		IT	Actual	No	
31.01	ADP Equipment and Software					
	IT Equipment Purchases	IT	IT	Actual	Yes	Depends on refresh requirements and office participation
	Emerging and Assistive Technology	XV	IT	Actual	Yes	Limited to PA, FSA and OCR
	Software Licensing	FB	IT	Network	Yes	
	Network	SL	IT	Network	Yes	
	Reliable Network	RX	IT	Network	Yes	
	Blackberry Devices	BB	IT	Actual	Yes	
43.01	Penalty Interest			Actual	Yes	FMSS generates penalty interest charges

Allocation Methodology Common Support
Office of Management

Method: Actual = Actual Costs/Charges based on Prior Year
FTE = Full time PO Staff

Object Class	Category / Projects	OM Office	Method	Charged to Account	Notes
11.50	ED Awards	HRS	Actual	No	
	SES Awards	HRS	Actual	No	
12.13	Compensatory Damages EEO Complaints	MS/EEO	Actual	No	
	Transit Benefits	MS	Actual	Yes	Starting in FY 04, being shown under this object class
12.18	Workers' Compensation	MS	Actual	Yes	
13.12	Unemployment Compensation	HRS	Actual	No	
21.00	Travel Union	EXO	Actual	No	
	Commercial Vehicle Leases	MS	Actual	No	
	Travel Motorpool	MS	Actual	No	
22.00	Transportation	MS	Actual	No	Freight, heavy package shipments
23.10	Rent to GSA	FS	Actual	Yes	Based on assigned square footage by office
23.31	Rentals/Leases				
	Copier Leases	MS	Actual	Yes	
	Equipment Leases	MS	Actual	Yes	
	Fedex	MS	Actual	Yes	
	Mail Meter Leases	MS	Actual	Yes	
23.32	Postage	MS	Actual	Yes	
24.01	Printing	EXO	Actual	Yes	OGC projects based on actual
25.21	Other Services				
	Misc Reasonable Accommodation Services	504	Actual	No	
	Alternate Format Center	504	Actual	Yes	
	Communication Accessibility CART/CAN	504	Actual	Yes	
	Interpreters	504	Actual	Yes	
	Reasonable Accommodation Training	504	Actual	No	
	Attorney Fees	EXO	Actual	No	Budget Services projects amount
	Transition Assistance Priority Placement	EXO	Actual	No	Budget Services projects amount
	Asset Management	FS	FTE	Yes	
	Customer Service Center	MS	FTE	Yes	
	Inventory Services	FS	FTE	Yes	
	Miscellaneous Services	FS	FTE	Yes	Only charged if project affects office or office funds to OM
	Moving Services	FS	FTE		
	Renovation services (In-house contract)	FS	Actual	No	Only charged if project affects office or office funds to OM
	Space Management/Planning	FS	Actual	No	
	System Furniture Reconfig	FS	Actual	No	Only charged if project affects office or office funds to OM
	Child Care Tuition Subsidy Prog	HRS	Actual	Yes	
	Demonstration Project	HRS	Actual	No	
	Drug Free Workplace Program	HRS	Actual	No	Not cost effective to charge back
	ED Awards Ceremony	HRS	Actual	No	

	Merit Promotion Database	HRS	FTE	Yes	
	OPF / Records Management Support	HRS	FTE	Yes	
	Statistical Expert/Class Action Suit	HRS	FTE	Yes	
	Copy Centers	MS	Actual	Yes	Copies generated per office
	ED Pubs	MS	Actual	No	Individual office budgets, PA receives allocation
	Mailroom Services	MS	FTE	Yes	
	Parking Contracts and Services	MS	Actual	Yes	
	Recreation Facilities	MS	FTE	Yes	
	Shuttle Bus Service	MS	FTE	Yes	
	Organizational Improvements	PPIS	Actual	No	
	Security - COOP Activities	SS	Actual	No	
	Security - Occup Emerg Plan Prog Support	SS	Actual	No	
	Security - Upgrade Badge System	SS	Actual	Yes	
	Advanced Computer Specialist Training	TDT	FTE	Yes	
	Bi-annual Dept. Training Needs Assessment	TDT	Actual	No	
	Enforcement Competency Assessment	TDT	FTE	Yes	
	Enforcement Competency Dev/Training	TDT	FTE	Yes	
	Facilitation	TDT	FTE	Yes	
	Financial Mgmt Customized Training	TDT	FTE	Yes	
	Grants Management Competency Training	TDT	FTE	Yes	
	IT Customized Training Clinger-Cohen Compet	TDT	FTE	Yes	
	Knowledge Mgmt. Training	TDT	FTE	Yes	
	Learning Tracks Development	TDT	FTE	Yes	
	Program Evaluation Monitoring Training	TDT	FTE	Yes	
	Research Competency Assessment	TDT	FTE	Yes	
	Research Competency Development/Training	TDT	FTE	Yes	
	Training Services/Consulting	TDT	FTE	Yes	
25.22	Training				
	Computer Training	TDT	FTE	Yes	
	Executive Development Slots	TDT	FTE	Yes	
	Headquarters Training (courses < $50K)	TDT	FTE	Yes	
	HQ Mgmt/Leadership Development	TDT	FTE	Yes	
	Manager/Education Speaker Series	TDT	FTE	Yes	
	Mentoring Program	TDT	FTE	Yes	
	New Mgmt/Leadership Development Program	TDT	FTE	Yes	
	Project Mgmt Courses/Certification Program	TDT	FTE	Yes	
	Regional / Mgmt Leadership Development	TDT	FTE	Yes	
	Regional / Principal Office Customized Training	TDT	FTE	Yes	
	Regional / Prof. Dev. Open Enrollment Courses	TDT	FTE	Yes	
	Tuition Funding	TDT	Actual	Yes	
25.30	Goods/Services from Government Agencies				
	CASU Regional Support / GSA	EXO	FTE	Yes	
	Consolidated Fund Report / Census	EXO	FTE	Yes	
	Federal Audit Clearinghouse / Commerce	EXO	Actual	Yes	OCFO projects based on actuals
	Above Standard Cleaning / Supply	FS	Actual	No	
	Bldg Equipt Maintenance and Repairs	FS	Actual	No	

	Chicago Move/Project Management	FS	FTE	Yes	
	Dallas Move/Project Management	FS	FTE	Yes	
	Excess Property Management / GSA	FS	FTE	Yes	
	Kansas City Move/Project Management	FS	FTE	Yes	
	MES/ROB3 Move/Project Management	FS	Actual	No	
	Misc Bldg repair/renovations (Incl BPAs)	FS	Actual	No	Individual offices budget, PA receives allocation
	New York Move/Project Management	FS	FTE	Yes	
	Off-site Computer Center	FS	Actual	No	
	Overtime Utilities / GSA	FS	FTE	Yes	
	San Francisco Move/Project Management	FS	FTE	Yes	
	Boston Personnel Support / GSA	HRS	FTE	Yes	
	Cost-for-Copy Services / GSA	HRS	Actual	No	
	Drug Free Workplace Program / PHS/OPM	HRS	Actual	No	
	EAP Counseling Services / PHS/OPM	HRS	FTE	Yes	
	FPPS / DOI	HRS	FTE	Yes	
	Medical Officer/Reas. Accomm. / PHS	HRS	Actual	No	
	Telecenter / Flexiplace Program / GSA	HRS	Actual	Yes	
	Environmental Test/Survey / PHS	MS	Actual	No	
	Health Unit Services / PHS	MS	FTE	Yes	
	Motor Vehicle Operator / Treasury	MS	Actual	No	
	Recreation Facilities / Various agencies	MS	FTE	Yes	
	Transit Subsidy / DOT	MS	Actual	Yes	Being captured now in object class 1213J
	Guard and Security Services / GSA	SS	FTE	Yes	
	Security - Misc Interagency	SS	Actual	No	
	Security - Systems maintenance	SS	Actual	Yes	
	Security - X-ray Screening Training	SS	Actual	Yes	
	Security Investigations / OPM	SS	Actual	Yes	
	Computer-Based Training Development / OPM	TDT	FTE	Yes	
	Federal Executive Institute / FEI	TDT	Actual	No	
	Federal Quality Consulting Group / FQCG	TDT	Actual	No	
	Management Development Ctr / OPM	TDT	Actual	No	
	SES Forums / DOL	TDT	Actual	No	
	TLN Framework Implementation / OPM	TDT	FTE	Yes	
	TLN Technical Support Services / OPM	TDT	FTE	Yes	
	Training Staff and Counseling Services	TDT	FTE	Yes	
25.71	Equipment Repair/Maint.				
	Reasonable Accommodation	504	Actual	No	
	Industrial Equipment	FS	Actual	No	
	Misc Office Equipment	FS	Actual	No	
	Copier	MS	Actual	Yes	
	Mail Meter	MS	Actual	Yes	
	Security Equipment	SS	Actual	Yes	
25.72	IT Services and Contracts				
	Asset Database Administration	FS	Actual	Yes	
	Security - Front Desk Admin Support	SS	Actual	No	
	Automated Indiv. Development Plan System	TDT	Actual	No	

	Group Systems Technical Support	TDT	FTE	Yes	
26.01	Supplies				
	Section 504 Supplies	504	Actual	No	
	Misc Supplies	EXO	Actual	No	
	Copy Paper	FS	Actual	Yes	
	Packing Boxes	FS	Actual	Yes	Only charged if project affects office or office funds to OM
	HR Supplies	HRS	Actual	No	
	Copier Supplies	MS	Actual	Yes	
	Letterhead and Envelopes	MS	Actual	No	
	Security-related supplies	SS	Actual	No	
	Training Supplies	TDT	Actual	No	
31.01	IT Equipment and Software				
	Reasonable Accommodations	504	Actual	No	Usually transferred to OCIO Section 508 Budget
	Mail Meter Rate Change	MS	Actual	No	
	Security - Access and Monitoring Equipment	SS	Actual	No	
	Security - COOP Activities	SS	Actual	No	
	Classrooms IT Equipment Upgrades	TDT	Actual	No	
	Group Systems Hardware/Software Upgrades	TDT	Actual	No	
	Regional IT Equipment Upgrades	TDT	Actual	No	
	Servers/Software for Virtual Classrooms	TDT	Actual	No	
31.03	Equipment and Furniture				
	Chicago Relocation	FS	FTE	Yes	
	Dallas Relocation	FS	FTE	Yes	
	Kansas City Relocation	FS	FTE	Yes	
	MES/ROB3 Modernization	FS	Actual	No	
	New York Relocation	FS	FTE	Yes	
	Off-site Computer Center	FS	Actual	No	
	San Francisco Relocation	FS	FTE	Yes	
	Furniture and Office Equipment	FS	Actual	No	Individual office budgets, PA receives allocation
	Security - COOP Activities	SS	Actual	No	
	Security - Remote Mail Facility	SS	Actual	No	
32.01	Building Alterations and Renovations				
	Chicago Relocation	FS	FTE	Yes	
	Dallas Relocation	FS	FTE	Yes	
	GSA Bldg Alterations & Renovations	FS	Actual	No	Individual office budgets, PA receives allocation
	Kansas City Relocation	FS	FTE	Yes	
	MES/ROB3 Modernization	FS	Actual	No	
	New York Relocation	FS	FTE	Yes	
	Non-GSA Bldg Alterations & Renovations	FS	Actual	No	Individual office budgets, PA receives allocation
	Off-site Computer Center	FS	Actual	No	
	San Francisco Relocation	FS	FTE	Yes	
	Security - Remote Mail Facility	SS	Actual	No	
	Security - Special Project Renovations	SS	Actual	No	
43.01	Penalty Interest		Actual	Yes	FMSS generates penalty interest charges