

**Management Advisory -
DHS Should Better
Evaluate the Performance
of Its Working Capital
Fund**





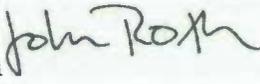
OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

July 1, 2016

MEMORANDUM FOR: The Honorable Russell Deyo
Under Secretary for Management
Department of Homeland Security

FROM: John Roth 
Inspector General

SUBJECT: *DHS Should Better Evaluate the Performance of Its
Working Capital Fund*

Attached for your action is our final management advisory, *DHS Should Better Evaluate the Performance of Its Working Capital Fund*. We incorporated the formal comments provided by your office.

The advisory contains two recommendations aimed at improving DHS' management of its working capital fund. Your office concurred with both recommendations. Based on information provided in your response to the draft advisory, we consider both recommendations open and resolved. Once your office has fully implemented the recommendations, please submit a formal closeout letter to us within 30 days so that we may close the recommendations. The memorandum should be accompanied by evidence of completion of agreed-upon corrective actions and of the disposition of any monetary amounts.

Please send your response or closure request to OIGAuditsFollowup@oig.dhs.gov.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Mark Bell, Assistant Inspector General for Audits, at (202) 254-4100.



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Department of Homeland Security

Management Advisory

DHS Should Better Evaluate the Performance of Its Working Capital Fund

Through this management advisory, we are bringing to your attention improvements that could be made to the Department of Homeland Security Working Capital Fund (WCF). First, the Department does not have performance measures to help determine its progress in meeting the WCF's goals to centralize and improve the management of services, reduce costs, and develop budgeting and expenditure plans for services. Second, DHS does not conduct consistent and regular reviews of some services funded by the WCF. Consistent and regular reviews would help determine whether funding activities through the WCF is more cost effective than using non-WCF funding. Because of these deficiencies, DHS cannot be certain it is using the WCF as fully as possible to improve cost effectiveness and efficiency.

Background

DHS WCF is a revolving fund intended to reduce costs by centralizing the purchase of goods and services used by multiple DHS offices and components, herein referred to as customers. DHS WCF service providers support selected services, activities, and programs that benefit more than one DHS organizational component. Service providers are responsible for the efficient operation, review, and management of their respective WCF activity.

The WCF receives no direct appropriation. Instead, Congress provides annual WCF spending authority to Federal customers equal to the amount called for in that year's Presidential Budget. According to WCF staff, the authorized amount corresponds to the estimated cost to fund the WCF activities for the upcoming year. As the activities incur expense, they are paid through the spending authority. The customers then reimburse the WCF from their own appropriations.

In fiscal year 2015, WCF funded 45 activities that 58 DHS customers used. These WCF activities included financial management, the bankcard program, parking services, General Services Administration (GSA) rent, and mail services. See appendix A for a list of activities broken down by management

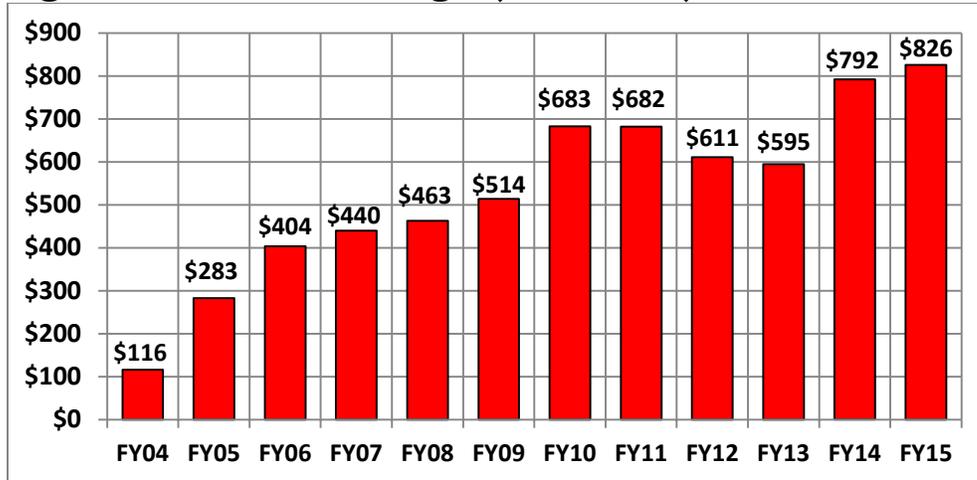


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office. As shown in figure 1, between FYs 2004 and 2015, the WCF budget grew from approximately \$116 million to nearly \$826 million in obligations.

Figure 1 – DHS WCF Budget (in millions)



Source: Presidential Budgets FYs 2006–17

The DHS Under Secretary for Management oversees the WCF to ensure it is managed effectively and efficiently. The Under Secretary’s goal is to maintain and operate a WCF that promotes economy, efficiency, and accountability and to apply best practices for improving organizational performance and operational efficiencies. The WCF Governance Board is responsible for establishing and overseeing financial and managerial policies and procedures related to WCF activities. The Board comprises permanent senior management officials from DHS Headquarters offices and rotating members from DHS components.

The goals of WCF are to:

- centralize administrative services where cost effectiveness can be demonstrated;
- ensure greater value to the customers by reducing costs through centralized management of department-wide services;
- improve management of the services by using accountable, business-like management methods; and
- develop accurate full-cost budgeting and expenditure plans for the services.

Performance Measures

The Department does not have performance measures to help determine its progress in meeting the WCF’s goals. According to the Government



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Accountability Office (GAO), performance measurement is one of the key operating principles for effective management of WCFs. Additionally, GAO's *Standards for Internal Control in the Federal Government* (GAO-14-704G) provides examples of common categories of control activities, including performance measures.

Department officials acknowledge the need to establish performance measures for the WCF. Performance measures that align with strategic goals could be used to evaluate whether WCF activities are contributing to the achievement of agency goals. Additionally, a management review process comparing expected to actual performance would allow the Department to gauge progress and potentially identify ways to improve performance.

Formal Process to Review WCF Activities

The WCF Assistant Director stated that from 2010 to 2015 the WCF Governance Board completed business case justification reviews on nine WCF activities and was planning additional reviews on a rotational basis. However, DHS has not established formal review requirements, procedures, or a schedule for performing business case justifications on all WCF activities.

A business case justification provides the WCF Governance Board with sufficient information to decide whether a WCF activity should be continued and included in the WCF. Business case justifications also ensure components using these activities have sufficient information to make a decision on the type and value of the services they will be receiving, including expected cost increases or decreases in ensuing years. For example, in 2015, the WCF Governance Board conducted reviews to determine whether it should continue funding the WCF for DHS' Mail Services and the DHS OneNet¹ Programs. Both programs met the requirements for continuing in the WCF.

The Department acknowledges that it does not have a formalized process to regularly review existing WCF activities. According to a Department official, the WCF Governance Board is working to document the formal review process. Currently, DHS is unable to determine whether all WCF activities are more cost effective and efficient than activities managed and paid for outside of WCF. As a result, DHS may be missing opportunities to achieve cost savings and help DHS Management offices provide more efficient and effective services.

¹ In 2005, DHS began to consolidate and transform its existing individual component networks into a single information technology infrastructure. The goal of OneNet is to create a reliable, cost-effective information technology infrastructure platform that supports the ability to share data among components.



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Recommendations

Recommendation 1: We recommend that the Under Secretary for Management develop and implement performance measures to ensure the WCF is achieving its goals of increasing efficiency, improving management of the fund, and providing accurate full-cost budget and expenditure plans.

Recommendation 2: We recommend that the Under Secretary for Management develop and implement formal documented procedures for reviewing the current WCF activities to confirm they continue to meet the criteria for funding through the WCF.

Management Comments and OIG Analysis

DHS concurred with all of the recommendations. In its comments, DHS noted that it is committed to promoting and improving the efficiency and effectiveness of the Department through its Unity of Effort initiative; and using avenues such as the WCF to achieve the strategies, goals, and objectives the DHS mission commands, while also ensuring the appropriate stewardship of taxpayer dollars.

We have included a copy of the management comments in their entirety in appendix B. DHS also provided technical comments to our report. We made changes to incorporate these comments as appropriate.

Recommendation #1: Concur. DHS' Working Capital Fund Governance Board (WCFGB) started developing performance measures during FY 2015 and will complete its review and approval of performance measures for all DHS WCF activities by the end of FY 2016. The WCFGB will then implement a standard periodic performance review process to monitor and track progress against performance goals. The WCF Charter was updated in February 2015 to include the requirement to "Maintain performance and cost data ...," and a copy was provided to OIG under separate cover. Additionally, a *Program Manager and Customer Guide* is in development to further codify the responsibilities of the WCF stakeholders, including specific requirements for performance metrics. Estimated completion date is October 31, 2016.

OIG Analysis: DHS' corrective action is responsive to the recommendation. This recommendation is resolved but will remain open until DHS provides evidence that it has implemented a standard periodic review process to monitor progress against performance goals, and when the *Program Manager and Customer Guide* further codifying responsibilities is implemented.



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Recommendation #2: Concur. The WCFGB reviewed business cases for the WCF throughout FY 2015 and has set a schedule to complete business case reviews of all remaining activities by the end of FY 2016. The Governance Board also established a standard template and schedule for these reviews which was sent to all activity managers and their WCFGB members during FY 2015. The WCFGB Charters were updated in March and February 2015, respectively, to include requirements for business case reviews, copies of which were provided to OIG under separate cover. Additionally, a *Program Manager and Customer Guide* is in development to further codify the responsibilities of the WCF stakeholders and provide specific requirements for business cases. Estimated completion date is October 31, 2016.

OIG Analysis: DHS' corrective action is responsive to the recommendation. This recommendation is resolved but will remain open until DHS provides evidence that the *Program Manager and Customer Guide* specifying requirements for business cases is implemented.

Objective, Scope, & Methodology

We conducted this review of the Department's WCF to determine whether DHS has effective internal controls to provide oversight of the WCF. Specifically, we assessed how the Department measured the WCF's performance toward achieving its strategic goals. We reviewed WCF documentation related to budget planning and execution as well as activity business case justifications for WCF inclusion. We interviewed personnel responsible for overseeing and managing the WCF, WCF activity management personnel, and WCF customer representatives.

We conducted this review between May 2015 and January 2016 pursuant to the *Inspector General Act of 1978*, as amended, and according to *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency.



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Appendix A
FY 2015 Working Capital Fund Activities by Managing Office

Managing Office	WCF Activity	
Chief Readiness Support Officer	1. GSA Rent 2. Transit Subsidy Services 3. Executive Sedan Services	4. Mail Services 5. Parking Services 6. Shuttle Services
Chief Procurement Officer	7. E-Gov Integrated Acquisition Environment 8. CPO Shared Reporting	9. Strategic Sourcing 10. Office of Procurement Operations
U.S. Immigration & Customs Enforcement	11. Finance & Accounting Shared Services	
Chief Financial Officer	12. Financial Statement Audit 13. Financial Management Support 14. Interagency Council Funding 15. Bankcard Program 16. Working Capital Fund Operations 17. Treasury Information Executive Repository	18. Internal Control Audit 19. Performance Management Line of Business 20. E-Gov Integrated Financial Assistance Environment
Chief Security Officer	21. Presidential Directive – 12 Infrastructure Support	
Chief Human Capital Officer	22. NFC Payroll Services & Reporting 23. HQ Human Capital Services 24. Flexible Spending Accounts 25. Human Resources Line of Business 26. USA Jobs 27. E-Training	28. SES Candidate Development 29. HQ Leadership Development 30. Enterprise Human Resources Integration 31. Human Capital Business Systems 32. National Defense University
Chief Information Officer	33. E-Gov Disaster Management 34. E-Rulemaking 35. E-Gov Benefits 36. Financial Management Line of Business 37. E-Gov Integrated Acquisition Environment Loans & Grants 38. Geospatial Line of Business 39. Budget Formulation & Execution Line of Business 40. Capital Planning & Investment Control	41. Research Library & Information Services 42. CIO/DHS Infrastructure Transformation 43. National Capital Region Infrastructure Operations 44. Classified Local Area Network Operations 45. Enterprise License Agreements

Source: DHS Working Capital Fund Congressional Justification, Fiscal Year 2015



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Appendix B
Management Comments to the Draft Report

U.S. Department of Homeland Security
Washington, DC 20528



**Homeland
Security**

June 14, 2016

MEMORANDUM FOR: John Roth
Inspector General

FROM: Jim H. Crumacker, CIA, CFE 
Director
Departmental GAO-OIG Liaison Office

SUBJECT: Management's Response to OIG Draft Report "DHS Should
Better Evaluate the Performance of Its Working Capital
Fund" (Project No. 15-072-AUD-DHS)

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security (DHS) appreciates the Office of Inspector General's (OIG) work in planning and conducting its review and issuing this report.

The DHS Working Capital Fund (WCF) exists to promote cost effectiveness and ensure greater value to the customers by (1) reducing costs through centralized management of Department-wide services; (2) improving management of these services by using accountable, business-like management methods; and (3) developing accurate full-cost budgeting and expenditure plans for the services. DHS is committed to promoting and improving the efficiency and effectiveness of the Department through its Unity of Effort initiative using avenues such as the WCF to achieve the strategies, goals, and objectives the DHS mission commands, while also ensuring the appropriate stewardship of taxpayer dollars.

The draft report contained two recommendations with which the Department concurs. Please see the attached for our detailed response to each recommendation.

Again, thank you for the opportunity to review and comment on this draft report. Technical comments were previously provided under separate cover. Please feel free to contact me if you have any questions. We look forward to working with you in the future.



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**Attachment: DHS Management Response to Recommendations
Contained in the Report for Project No. 15-072-AUD-DHS**

OIG recommended that the Under Secretary for Management:

Recommendation 1: Develop and implement performance measures to ensure the WCF is achieving its goals of increasing efficiency, improving management of the fund, and providing accurate full-cost budget and expenditure plans.

Response: Concur. DHS's Working Capital Fund Governance Board (WCFGB), led by its Chair, the DHS Deputy Chief Financial Officer, started developing performance measures during Fiscal Year (FY) 2015 and will complete its review and approval of performance measures for all DHS WCF activities by the end of FY 2016. These reviews and approvals will be documented in the WCFGB minutes after each meeting. The Governance Board will then implement a standard periodic performance review process to monitor and track progress against performance goals. The WCF Charter was updated in February 2015 to include the requirement to "Maintain performance and cost data ...", and a copy was provided to OIG under separate cover. Additionally, a Program Manager's and Customer Guide is in development to further codify the responsibilities of the WCF stakeholders including specific requirements for performance metrics. Estimated Completion Date (ECD): October 31, 2016.

Recommendation 2: Develop and implement formal documented procedures for reviewing the current WCF activities to confirm they continue to meet the criteria for funding through the WCF.

Response: Concur. The WCFGB reviewed business cases for the WCF throughout FY 2015 and has set a schedule to complete business case reviews of all remaining activities by the end of FY 2016. The Governance Board also established a standard template and schedule for these reviews which was sent to all activity managers and their WCFGB members during FY 2015. The Working Capital Fund and Governance Board Charters were updated in March and February 2015, respectively, to include requirements for business case reviews, copies of which were provided to OIG under separate cover. Additionally, a Program Manager's and Customer Guide is in development to further codify the responsibilities of the WCF stakeholders and provide specific requirements for business cases. ECD: October 31, 2016.



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Appendix C
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