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United States General Accounting Office

Report to Congressional Requesters

GAO

September 1988

# INTERAGENCY AGREEMENTS

## Fiscal Year 1988 Agreements at Selected Agencies Were Proper



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**Accounting and Financial  
Management Division**

B-228826

September 28, 1988

The Honorable John C. Stennis  
Chairman, Committee on Appropriations  
United States Senate

The Honorable Jamie L. Whitten  
Chairman, Committee on Appropriations  
House of Representatives

In Conference Report 100-498, Making Further Continuing Appropriations for the Fiscal Year Ending September 30, 1988, we were directed to review the transfer of appropriated funds between agencies covered by the Treasury, Postal Service, and General Government Appropriations Act, 1988, and other federal agencies. We were also requested to assess the propriety of such transfers by determining whether the agencies' use of funds was consistent with the original purpose of the appropriations.

For the agencies covered by the act, we reviewed 234 interagency agreements<sup>1</sup> related to transfer of fiscal year 1988 appropriated funds in exchange for goods or services.<sup>2</sup> The agencies had entered into these agreements, which were valued at almost \$90 million, as of February 29, 1988. We verified that the agreements we examined were made for the purposes intended in the agencies' congressional appropriations for fiscal year 1988, and, therefore, were proper.

In addition, we determined that internal controls used by the agencies we reviewed were adequate to ensure that interagency agreements which they entered into complied with legal and administrative requirements. Our tests and observations confirmed that these internal controls were in place and generally working as intended.

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<sup>1</sup>An agency can enter into an agreement where it pays another agency for goods and services received. An agency can also enter into an agreement where it is paid by another agency for goods and services provided. In this report, "interagency agreements" refer to agreements where agencies receive, rather than provide, goods or services. (See related discussion in the Objective, Scope and Methodology section.)

<sup>2</sup>Funds appropriated to the Postal Service under the act are for revenue forgone on certain free and reduced rate mail. These funds are merged in the Postal Service Fund with receipts from postage and other revenues. Amounts spent under the Postal Service's interagency agreements included in our review are thus not distinguished as to source.

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However, there were instances where specific accounting requirements and control techniques were not followed by agencies in processing particular interagency agreements included in our tests of internal controls. These instances affected neither the propriety of the agreements nor the integrity of the overall control structures identified.

For example, we identified agreements where agencies did not document the determinations required by the Economy Act (31 U.S.C. 1535) that goods and services could best be obtained through an interagency agreement rather than other means. In addition, we found instances where agencies had not cited the authority for entering into the agreements and where obligations for interagency agreements had not been recorded promptly in accounting records. When these situations occur, they increase the possibility that agreements may either be made for unauthorized purposes or be improperly controlled.

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## Background

Government agencies use interagency agreements extensively to conduct a wide variety of operations, from renting space to purchasing equipment. The Department of the Treasury has estimated that, for civilian agencies alone, it processes thousands of interagency transactions per month through its primary payment and collection system. These transactions result in the transfer of billions of dollars between agencies.

Many statutes, such as the Presidential Protection Assistance Act of 1970 (Public Law 94-524), authorize agencies to enter into interagency agreements. In the absence of specific statutory authority to enter into an interagency agreement, the Economy Act generally constitutes authorization. The Congress legislated the Economy Act in order to more fully utilize government agency resources and avoid duplicate or overlapping activities. For example, a government agency might obtain goods or services at a lower cost through contracting expertise developed in another agency or could receive greater quantity discounts through consolidated purchases. The act requires, however, that agency heads determine that the goods or services to be provided are best obtained through this means before entering into an agreement.

The appropriations act cited in the Conference Committee report makes funds available to several agencies, including the Department of the Treasury, the Postal Service, the General Services Administration, and the Office of Personnel Management, as well as the Executive Office of

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the President. It also covers many small agencies, councils, and commissions, such as the Federal Elections Commission and the National Archives and Records Administration.

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## Objective, Scope, and Methodology

The objective of this report is to advise the Senate and House Appropriations Committees whether interagency agreements made using funds provided through the Treasury, Postal Service, and General Government Appropriations Act, 1988, were proper. We (1) determined whether interagency agreements using funds authorized by this act were consistent with the purpose for which the funds were appropriated, (2) identified internal controls agencies established to ensure proper processing of these agreements, and (3) examined these controls to see if they were operating as intended.

We performed work at the Department of the Treasury, the Postal Service, the General Services Administration, and the Office of Personnel Management. We chose these agencies because the size of their appropriations (compared to other agencies included in the appropriations act specified in the Conference Committee report) made it more likely that they would have the most interagency agreements. Our review at the Department of the Treasury included the following agencies and components: (1) the Bureau of Alcohol, Tobacco and Firearms, (2) the Financial Management Service, (3) the Internal Revenue Service, (4) the Secret Service, and (5) Treasury departmental offices. We selected them because they represent 80 percent of the total funds appropriated to the Department of the Treasury through the pertinent appropriations act. We did not select the Customs Service because of our recent work in this area at that agency.<sup>3</sup>

We concentrated our work on agreements involving the receipt of goods and services by agencies funded through the pertinent appropriation. (See footnote 1.) During the time period covered by our review, these agencies and components entered into additional agreements in which they were to provide goods and services to other agencies. We did not evaluate these agreements because our work focused on assessing agreements involving funds from the appropriations act specified in the Committee report.

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<sup>3</sup>Interagency Agreements: Customs-Coast Guard Agreement for U.S.-Bahamas Drug Task Force Was Proper (GAO/AFMD-87-69, August 31, 1987).

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We reviewed all interagency agreements related to both headquarters and field office operations which five agencies or components (the Bureau of Alcohol, Tobacco and Firearms; the Financial Management Service; the Secret Service; Treasury's departmental offices; and the General Services Administration) entered into using fiscal year 1988 funds, as of February 29, 1988. Our work at the remaining three agencies (the Office of Personnel Management, the Postal Service, and the Internal Revenue Service) included every interagency agreement related to their headquarters operations. The headquarters offices for these three agencies were unable to provide complete information for our examination of the nature and extent of agreements at their field locations. However, in our judgment, the number, size, and type of agreements reviewed would be representative of those generally entered into by these agencies.

We examined agreements entered into from October 1, 1987, through February 29, 1988. To review the agreements, we (1) determined requirements and restrictions in the pertinent appropriations act, (2) examined the purposes of the agreements, and (3) analyzed whether the agreements were made for the purpose intended by the authorizing appropriations act.

As discussed earlier, we reviewed all of the interagency agreements for which the headquarters' offices of several agencies could provide us complete data, and therefore did not use a statistical sample approach in selecting agreements for evaluation. Consequently, although we do not project the results of our examination to the universe of interagency agreements executed by the agencies covered in the Treasury, Postal Service, and General Government Appropriations Act, 1988, our approach resulted in comprehensive coverage of agreements made during the first 5 months of fiscal year 1988 by the major agencies included in that act.

We also determined agencies' internal control procedures for processing interagency agreements. To evaluate these procedures, we (1) identified and analyzed agencies' controls for processing the agreements, (2) discussed the operation of these processes with agency representatives, and (3) tested controls to see if they were operating as intended. We also reviewed the agencies' Federal Managers' Financial Integrity Act of

1982 reports<sup>4</sup> to identify any reported material internal control or accounting weaknesses related to interagency agreements.

Responsible officials from the agencies we reviewed commented on our report, and we have incorporated their comments where appropriate. Our work was conducted from December 1987 through May 1988 and was performed in accordance with generally accepted government auditing standards.

## Interagency Agreements Were Proper

We examined 234 interagency agreements at the eight agencies and components included in our review. These agreements were for \$89.9 million. The specific number of agreements analyzed for each agency and the related dollar amounts are shown in table 1.

**Table 1: Number and Dollar Value of Reimbursable Agreements Reviewed**

| Agency/Component                        | Agreements reviewed |                                 |
|---|---------------------|---------------------------------|
|   | Number              | Dollar value                    |
| Department of the Treasury              |                     |                                 |
| Bureau of Alcohol, Tobacco and Firearms | 74                  | \$608,299                       |
| Departmental offices                    | 11                  | 839,815                         |
| Financial Management Service            | 13                  | 3,045,949                       |
| Internal Revenue Service                | 15                  | 2,294,178                       |
| Secret Service                          | 54                  | 3,285,186                       |
| General Services Administration         | 47                  | 7,575,581                       |
| Office of Personnel Management          | 12                  | 310,583                         |
| United States Postal Service            | 8                   | 71,949,957                      |
| <b>Total</b>                            | <b>234</b>          | <b>\$89,909,548<sup>a</sup></b> |

<sup>a</sup>Eleven reimbursable agreements were not expressed in terms of a total dollar value. These agreements were expressed in terms of unit rates, or the quantities of goods and services to be delivered were unspecified. The value of these agreements will not be known until work or delivery is completed and so could not be included in the amounts shown on table 1 or the stratification shown in table 2. The Secret Service had five such agreements, the General Services Administration had five, and the Office of Personnel Management had one.

Our review showed that the purpose of the agreements was consistent with the intent of the Congress when it appropriated the funds. In addition, we did not find any agreements which circumvented restrictions in the appropriations act. Therefore, we believe that the agreements examined were proper.

<sup>4</sup>The Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(b) and (c)) requires agencies to report material weaknesses in agency internal control and accounting systems to the President and the Congress each year, along with plans to correct the problems.

The agreements were generally of a routine nature, involving the acquisition of goods or services necessary to maintain agency operations or support a specific program. The purposes for which agreements were executed included providing (1) health services, (2) communication and computer services, (3) security and investigations, (4) training, and (5) lease/purchase of vehicles. For example, Treasury's departmental offices entered into a \$24,344 agreement with the Library of Congress involving computerized information retrieval services for the department's library. In another instance, the General Services Administration had a \$17,400 agreement with Walter Reed Army Medical Center to provide for examination and treatment of work-related injuries to the administration's employees.

Some of the agreements, however, were to obtain items of a specialized nature. For example, we found agreements which the Secret Service entered into with Department of Defense components to obtain specific calibers of ammunition available only from the Army and to procure other defense-related material.

Of the 234 agreements reviewed, 189 were for less than \$100,000 each. (See note to table 1.) In addition, only five of the agreements were for over \$1 million, including a \$70 million interagency agreement between the Postal Service and the Bureau of Engraving and Printing for the printing and shipment of postage stamps. Table 2 shows the number of agreements examined for each agency or component in various amount categories.

**Table 2: Dollar Value Stratification of Reimbursable Agreements Reviewed**

| Agency/Component                        | Value of agreements <sup>a</sup> |                          |                          |
|---|----------------------------------|--------------------------|--------------------------|
|   | Less than \$100,000              | \$100,000 to \$1 million | Greater than \$1 million |
| Department of the Treasury              |                                  |                          |                          |
| Bureau of Alcohol, Tobacco and Firearms | 73                               | 1                        | 0                        |
| Departmental offices                    | 9                                | 2                        | 0                        |
| Financial Management Service            | 10                               | 2                        | 1                        |
| Internal Revenue Service                | 10                               | 5                        | 0                        |
| Secret Service                          | 42                               | 7                        | 0                        |
| General Services Administration         | 31                               | 8                        | 3                        |
| Office of Personnel Management          | 11                               | 0                        | 0                        |
| United States Postal Service            | 3                                | 4                        | 1                        |
| <b>Total</b>                            | <b>189</b>                       | <b>29</b>                | <b>5</b>                 |

<sup>a</sup>See note a to table 1.

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## Internal Controls Generally Adequate

A typical process for controlling interagency agreements to ensure that they meet legal and administrative requirements might involve the following general steps.

1. Identify the need for the goods or services and determine the best sources from which they are available.
2. Develop an agreement which includes such information as a description of the goods or services required, their cost, and an expected delivery date.
3. Execute the agreement after obtaining approvals from appropriate program, budget and finance, and legal offices.
4. Establish an obligation in accounting records and ensure that billings are proper for payment.

We found that each of the eight agencies either established specific procedures for processing interagency agreement transactions or relied on their existing accounting policies. We believe that these policies and procedures were adequate to ensure that interagency agreements were processed in accordance with applicable laws and regulations. None of the agencies included in our evaluation had cited internal control problems involving interagency agreements in their Federal Managers' Financial Integrity Act reports. (See footnote 4.) Examples illustrating control processes used by agencies follow.

The Bureau of Alcohol, Tobacco and Firearms, and Treasury's Financial Management Service maintain at their headquarters a documented inventory of all interagency agreements. Procedures at the General Services Administration, which specifically incorporate language from the Economy Act, require documentation of the authority for interagency agreements and mandate that advance payments related to them be adjusted to actual costs. To help ensure that pertinent laws and regulations are met, the Secret Service uses a process requiring review of procurement actions (including interagency agreements) by either branch chiefs or senior procurement officials, depending on the value of the procurement. The Office of Personnel Management requires that interagency agreement documents contain the signatures of appropriate officials, the terms of the agreement, and a statement regarding the scope of the work.

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We noted, however, the following instances where specific control techniques and accounting requirements were not followed in processing agreements included as part of our tests of agencies' internal controls. These instances did not affect the propriety of individual agreements involved or the control environment which we found at the agencies.

- To comply with the Economy Act, the head of the ordering agency must determine that the order is in the best interests of the government. The act also requires that a determination be made that the goods or services cannot be procured as conveniently or inexpensively by contracting directly with a commercial enterprise.

Our analysis of agreements under the Economy Act showed that the Secret Service documented these determinations. However, other agencies, including Treasury's Financial Management Service, the Bureau of Alcohol, Tobacco and Firearms, and the General Services Administration, did not prepare written evidence that Economy Act determinations had been made.

The lack of written evidence, of course, does not necessarily indicate that the determinations have not been made. In fact, the Economy Act does not mandate written documentation. However, documenting the determinations in this way is a sound practice and would represent a basic control to ensure that these determinations have been made.

- For 169 of the 234 interagency agreements we reviewed, agencies had not cited the statutory authority under which the agreement was made. Citing a statutory authority in the agreements is a fundamental control to demonstrate and document their legality and propriety.
- Obligations for interagency agreements were not always recorded promptly. Of the 11 agreements included in our internal control tests at the Bureau of Alcohol, Tobacco and Firearms, we found that obligations for 9 agreements were not promptly recorded in accounting records. In these cases, recording obligations occurred an average of 69 days after the agreements were signed. Tests involving 12 agreements at Treasury's Financial Management Service showed that recording obligations for six agreements were delayed an average of 55 days. At the Internal Revenue Service, obligations related to two of six agreements remained unrecorded in accounting records an average of 93 days.

The GAO Policy and Procedures Manual for Guidance of Federal Agencies requires agencies to promptly record obligations as charges against

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applicable appropriations so that requirements for fund control are met, essential management information is provided, and required reports are prepared. In addition, internal control standards prescribed by the Comptroller General, which agencies are to follow, require prompt recording of transactions.

- In two cases, agencies needed to strengthen their written guidance for processing interagency agreements. The Internal Revenue Service needed to revise its written procedures to specify that an order can be placed with another agency only after determining that adequate funding is available. Accounting guidance at Treasury's Financial Management Service did not require verification that, before making a reimbursement, goods and services requested under an interagency agreement had actually been provided. While we did not find improprieties due to inadequate guidance in these cases, written procedures are important to ensure adequate management control over agency operations and agency compliance with applicable laws and regulations.

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## Observations

Interagency agreements are a commonly used method by which agencies throughout the government receive goods and services from other agencies. These agreements are authorized by various statutes, as well as the Economy Act, and have become a normal and accepted part of carrying out agency operations.

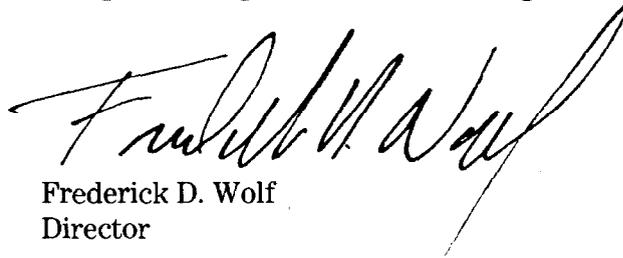
Agencies funded by the Treasury, Postal Service, and General Government Appropriations Act, 1988, like other agencies, used interagency agreements for a wide range of functions. The purposes for which these agencies used interagency agreements were consistent with the related appropriations act.

In addition, these agencies had internal controls that will help ensure that they continue to properly fulfill the requirements of statutes which authorize interagency agreements. Agencies included in our review had certain internal control and accounting problems in processing interagency agreements which, while not serious and widespread, should be corrected.

We brought these problems to the attention of agency representatives during our review. In most cases, they agreed to act to provide improved accounting and control. We are, therefore, not making recommendations in this report.

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Responsible agency officials provided comments on this report, and we have incorporated these comments where appropriate. Unless you announce the contents of this report earlier, we will not distribute it until 30 days from its date. At that time, we will distribute copies to the Chairman, Subcommittee on Treasury, Postal Service, and General Government, Senate Committee on Appropriations; the Secretary of the Treasury; the Administrator of General Services; the Postmaster General; and the Director of the Office of Personnel Management. We will also provide copies to interested congressional committees and others.



Frederick D. Wolf  
Director

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