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United States Department of State  
and the Broadcasting Board of Governors  
Office of Inspector General

## **Office of Audits**

# Independent Auditor's Report on the Application of Agreed-Upon Procedures Relating to Recreational and Convenience Services

Report Number AUD/FM-06-01, November 2005

### **~~IMPORTANT NOTICE~~**

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## PREFACE

To: Chief Financial Officer, Department of State

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, Section 209 of the Foreign Service Act of 1980, the Arms Control and Disarmament Amendments Act of 1987, and the Department of State and Related Agencies Appropriation Act, FY 1996.

OIG performed the procedures described in this report, which were agreed to by your office and OIG, solely to obtain, at your request, information relating to the methods government agencies use to provide and fund recreational and other convenience services to their employees.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the Chief Financial Officer. Consequently, OIG makes no representations regarding the sufficiency of the procedures either for the purpose for which they were requested or for any other purpose.

OIG was not engaged to and did not perform an examination, the objective of which would be the expression of an opinion on the matters addressed herein. Accordingly, OIG does express such an opinion. Had OIG performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Chief Financial Officer and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

John E. Lange  
Acting Inspector General

November 4, 2005

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**Summary**

In response to a request from the Chief Financial Officer, the Office of Inspector General (OIG) performed certain agreed-upon procedures. OIG contacted representatives from 14 cabinet-level agencies to identify and report on the methods they used to provide and fund recreational and other convenience services to their employees.

OIG found that all 14 agencies provided fitness facilities for their employees. Although three agencies operated their own fitness facilities, the majority of the agencies had agreements with employee/recreation associations or contracts with external contractors to operate the facilities. Most agencies provided space, with some of those also providing utilities and cleaning services, and three agencies provided fitness facility equipment. In most cases, the facility operator provided the equipment, as well as managed day-to-day operations and provided staff. Two agencies funded their facilities with appropriated funds, while the remaining agencies funded their facilities with user fees or a combination of appropriated funds and user fees. All agencies reported that the method they used to operate the facility had been effective.

OIG also found that 12 agencies provided other services, such as concessions, barber shops and hair salons, and dry cleaning services to their employees. As with fitness facilities, most agencies used employee/recreational associations or external contractors to operate these services. Only one agency used minimal appropriated funds for their concessions.

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**Agreed-Upon Procedures  
Relating to Recreational and Convenience Services**

The objective of this work was to identify and report on the methods that 14 cabinet-level agencies use to provide and fund recreational and other convenience services to their employees. OIG contacted representatives from these agencies and conducted telephone interviews in order to obtain agreed-upon information from each. The results of these agreed-upon procedures are documented below.<sup>1</sup>

<b>LIST OF AGENCIES CONTACTED</b>
Department of Agriculture (USDA) Department of Commerce (Commerce) Department of Defense (DOD) Department of Education (Education) Department of Energy (DOE) Department of Health and Human Services (HHS) Department of Homeland Security (DHS) Department of Housing and Urban Development (HUD) Department of the Interior (Interior) Department of Justice (Justice) Department of Labor (DOL) Department of Transportation (DOT) Department of the Treasury (Treasury) Department of Veterans Affairs (VA)

<b>PROCEDURES</b>	<b>RESULTS</b>
Does the agency provide fitness facilities for its employees?  If so, does the agency operate facilities in more than one location? How many?	All 14 agencies provided fitness facilities.  Five agencies reported that they operate facilities in more than one location: USDA (4), DOD (521), DOE (2), DHS (did not provide number of locations), Justice (3), and DOL (2).

<sup>1</sup> Not all agencies responded to all questions. Therefore, the report summarizes the responses that were received.

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Relating to Recreational and Convenience Services**

<b>PROCEDURES</b>	<b>RESULTS</b>
<p>For each location, is the facility operated by:</p> <ul style="list-style-type: none"><li>• the agency?</li><li>• an employee association?</li><li>• an external contractor?</li><li>• other?</li></ul>	<p>Three agencies operated at least some of their own facilities: DOD (most installations), DOT, and Treasury.</p> <p>Employee/recreation associations operated facilities at four agencies: USDA, DOD (Pentagon facility), Interior, and DOL (1 facility).</p> <p>Contractors operated facilities for three agencies: DOD (a few installations), HHS, and DHS.</p> <p>Employee/recreation associations oversaw contractor operations of facilities at six agencies: Commerce, Education, DOE, HUD, Justice, and DOL (1 facility).</p>

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<b>PROCEDURES</b>	<b>RESULTS</b>
<p>If the facility is operated by someone other than the agency:</p> <ul style="list-style-type: none"><li>• What mechanism is used (contract, agreement, etc.)?</li> <li>• What does the agency provide?</li>          <li>• What does the facility operator provide?</li></ul>	<p>In general, agencies had agreements with employee/recreation associations that operated the facilities and contracts with external contractors that operated the facilities.</p> <p>Ten agencies provided space for the fitness facility: USDA, Commerce, DOD, Education, DOE, HHS, HUD, Interior, Justice, and DOL.</p> <p>Seven of the ten agencies that provided space also provided utilities: Commerce, DOD, Education, DOE, HUD, Interior, and Justice; and five of the ten agencies also provided cleaning services: Commerce, Education, HUD, Interior, and DOL.</p> <p>Three agencies provided equipment: DOD (for facilities on military installations), Education, and HHS; two additional agencies provided the initial equipment: DOE and DOL. DOL also provided an automated external defibrillator.</p> <p>In most cases, the facility operator managed day-to-day operations and provided staff and equipment.</p>

**Agreed-Upon Procedures  
Relating to Recreational and Convenience Services**

<b>PROCEDURES</b>	<b>RESULTS</b>
<p>Why did the agency choose that method to operate the facility? What are the advantages of the arrangement?</p>	<p>Agencies with employee/recreation associations and contractors operating the facility reported that the arrangement is easy because the agency is not involved.</p> <p>Agencies that used contractors to operate the facility reported that it is cost-effective, and the staff are trained or experienced professionals.</p> <p>Agencies that directly operate the facility stated that the agency has more control, it is more cost-effective in the long term, and there is more stability in operations.</p>
<p>Has the arrangement been effective?</p>	<p>All agencies reported that the method they use to operate the facility has been effective.</p>
<p>Has the agency experienced any problems?</p>	<p>DOE stated that that there have been issues with contractor personnel. DOD stated that there are not enough resources to replace equipment when required.</p>

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<b>PROCEDURES</b>	<b>RESULTS</b>										
<p>How does the agency fund the facility:</p> <ul style="list-style-type: none"><li>• appropriated funds?<sup>2</sup></li> <li>• user fees?</li> <li>• combination?</li></ul> <p>If appropriated funds are used, what are the approximate costs for one year?</p>	<p>Two agencies funded the facility with appropriated funds: DOD (some locations) and Treasury.</p> <p>Three agencies funded their facilities with user fees: USDA, HUD, and Interior.</p> <p>Nine agencies used a combination of appropriated funds and user fees to fund their facilities: Commerce, DOD (Pentagon facility), Education, DOE (1 facility), HHS, DHS, Justice, DOL, and DOT.</p> <p>The approximate amount of appropriated funds each agency that responded to this question used for one year were:</p> <table><tbody><tr><td>DOD</td><td>\$500,000 (for each DOD-operated facility)</td></tr><tr><td>Education</td><td>\$6,000 to \$10,000<sup>3</sup></td></tr><tr><td>HHS</td><td>\$63,000</td></tr><tr><td>DOL</td><td>\$250,000-300,000<sup>4</sup></td></tr><tr><td>DOT</td><td>\$65,000</td></tr></tbody></table>	DOD	\$500,000 (for each DOD-operated facility)	Education	\$6,000 to \$10,000 <sup>3</sup>	HHS	\$63,000	DOL	\$250,000-300,000 <sup>4</sup>	DOT	\$65,000
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<p>How does the agency account for the appropriated funds used?</p>	<p>Most of the agencies that responded to this question used their working capital fund accounts or administrative support accounts to account for these funds.</p>										

<sup>2</sup> OIG only included the agencies that used appropriated funds for items other than space and utilities.

<sup>3</sup> Education also used appropriated funds to reimburse other agencies for Education employee's use of their fitness facilities (\$12,250) and to subsidize employees' memberships in private facilities in locations where there is no agency fitness center (\$150,331).

<sup>4</sup> The amount DOL reported includes costs for the initial start up of one of its facilities as well as space costs. DOL did not provide a breakdown of the costs.

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If the agency charges user fees, what are the fees and for what period?	<table border="1"><thead><tr><th style="background-color: #FFD700;">AGENCY</th><th style="background-color: #FFD700;">AMOUNT/PERIOD</th></tr></thead><tbody><tr><td>USDA</td><td>\$12/pay period or \$312/yr.</td></tr><tr><td>Commerce</td><td>\$12.50/pay period or \$300/yr.</td></tr><tr><td>DOD (Pentagon)</td><td>\$10 to \$22/mo.</td></tr><tr><td>Education</td><td>\$13/pay period</td></tr><tr><td>DOE (DC)</td><td>\$6.50 to \$11.50/pay period</td></tr><tr><td>HHS</td><td>\$24/mo.</td></tr><tr><td>HUD</td><td>\$12 to \$14/pay period</td></tr><tr><td>Interior</td><td>\$12/pay period or \$312/yr.</td></tr><tr><td>Justice</td><td>\$14/pay period</td></tr><tr><td>DOL</td><td>\$200 to \$208/yr.</td></tr><tr><td>DOT</td><td>\$6.00/pay period or \$156/yr.</td></tr></tbody></table>	AGENCY	AMOUNT/PERIOD	USDA	\$12/pay period or \$312/yr.	Commerce	\$12.50/pay period or \$300/yr.	DOD (Pentagon)	\$10 to \$22/mo.	Education	\$13/pay period	DOE (DC)	\$6.50 to \$11.50/pay period	HHS	\$24/mo.	HUD	\$12 to \$14/pay period	Interior	\$12/pay period or \$312/yr.	Justice	\$14/pay period	DOL	\$200 to \$208/yr.	DOT	\$6.00/pay period or \$156/yr.
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	Note: Fees shown are for agency employees only and do not include discounts or other charges, such as membership and locker fees.																								
	Eight agencies permitted employees to pay fitness facility fees through automatic payroll deductions: USDA, Commerce, DOE (DC facility), HUD, Interior, Justice, DOL, and DOT.																								
How are the user fees determined?	In most cases, the employee/recreation association or contractor determined the amount of user fees. Most agencies indicated that the amount is based on the cost of running the facility. DOD, DOE (DC facility), and HUD based their fee on salary or rank/grade.																								
How are the user fees used?	In most cases the fees were used to pay operating expenses and buy equipment.																								
How does the agency account for user fees? Does it maintain a separate account? Who maintains the account?	In most cases, the employee/recreation association or contractor maintained and managed a separate account. DOT maintained a separate account for its user fees. For DOD, the Department of the Army maintained an account for the employee/recreation association as DOD's agent.																								

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<p>Are all employees permitted to use the fitness facility? If not, which employees are permitted to use the facilities?</p> <p>Is membership in an employee association required?</p> <p>How many employees use the fitness facility?</p>	<p>All 14 agencies reported that all employees are permitted to use their fitness facilities.</p> <p>Four agencies required membership in their employee association: DOD (Pentagon facility), Education, Interior, and DOL.</p> <p>The approximate numbers of employees that use the facilities are listed below.</p> <table border="1" style="margin-left: auto; margin-right: auto;"><thead><tr><th style="text-align: center;"><b>AGENCY</b></th><th style="text-align: center;"><b>EMPLOYEES</b></th></tr></thead><tbody><tr><td style="text-align: center;">Commerce</td><td style="text-align: center;">525</td></tr><tr><td style="text-align: center;">DOD (Pentagon)</td><td style="text-align: center;">4,000</td></tr><tr><td style="text-align: center;">Education (Hqtrs)</td><td style="text-align: center;">380</td></tr><tr><td style="text-align: center;">DOE (DC facility)</td><td style="text-align: center;">950</td></tr><tr><td style="text-align: center;">DOE (2<sup>nd</sup> facility)</td><td style="text-align: center;">350</td></tr><tr><td style="text-align: center;">HHS</td><td style="text-align: center;">300</td></tr><tr><td style="text-align: center;">HUD</td><td style="text-align: center;">900</td></tr><tr><td style="text-align: center;">Interior</td><td style="text-align: center;">500</td></tr><tr><td style="text-align: center;">Justice</td><td style="text-align: center;">1,900</td></tr><tr><td style="text-align: center;">DOL</td><td style="text-align: center;">1,300</td></tr><tr><td style="text-align: center;">DOL (2<sup>nd</sup> facility)</td><td style="text-align: center;">780</td></tr><tr><td style="text-align: center;">DOT</td><td style="text-align: center;">1,257</td></tr><tr><td style="text-align: center;">Treasury</td><td style="text-align: center;">50</td></tr></tbody></table>	<b>AGENCY</b>	<b>EMPLOYEES</b>	Commerce	525	DOD (Pentagon)	4,000	Education (Hqtrs)	380	DOE (DC facility)	950	DOE (2 <sup>nd</sup> facility)	350	HHS	300	HUD	900	Interior	500	Justice	1,900	DOL	1,300	DOL (2 <sup>nd</sup> facility)	780	DOT	1,257	Treasury	50
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<p>What are the hours of operation for the fitness facility?</p>	<p>Fitness facilities were generally open Monday through Friday with hours within the range of 6:00 am to 8:00 pm.</p> <p>Treasury's fitness facility was open 24 hours.</p> <p>DOD's Pentagon facility was open from 5:30 am to 9:30, and some DOD-run facilities were open 24 hours.</p>																												

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<b>PROCEDURES</b>	<b>RESULTS</b>
<p>Does the agency employ staff to operate and maintain the facility?</p> <p>If so, how many and for what purpose? Are they agency employees?</p>	<p>Only two agencies employed staff to operate and maintain the facility.</p> <p>DOT employed one federal employee and one contractor. DOD's Pentagon facility employed 11 people, and approximately 5,500 agency personnel work at its fitness facilities at military installations around the world.</p>
<p>Does the agency provide any other recreational or convenience services, such as:</p> <ul style="list-style-type: none"><li>• concessions?</li><li>• barber shop and nail salon?</li><li>• drycleaning services?</li><li>• other?</li></ul>	<p>Twelve agencies provided other services:</p> <ul style="list-style-type: none"><li>• Twelve provided concessions, such as convenience stores, gift shops, and snack bars and other food services: USDA, Commerce, DOD, DOE, DHS, HUD, Interior, Justice, DOL, DOT, Treasury, and VA.</li><li>• Four provided barber shops and/or hair salons: USDA, DOD, DOE, and Interior.</li><li>• Four provided drycleaning services: USDA, DOD, Interior, and DOL.</li><li>• Two provided ticket sales: USDA and VA; and two brought in various vendors on a weekly basis: DOE and VA.</li></ul>

**Agreed-Upon Procedures  
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<p>For each service, is the service operated by:</p> <ul style="list-style-type: none"><li>• the agency?</li><li>• an employee association?</li><li>• an external contractor?</li><li>• other?</li></ul> <p>If the service is operated by someone other than the agency:</p> <ul style="list-style-type: none"><li>• What mechanism is used (contract, agreement, etc.)?</li><li>• What does the agency provide?</li><li>• What does the facility operator provide?</li></ul>	<p>Two agencies operated some concessions: DOD (Exchanges) and DHS.</p> <p>Employee/recreation associations operated some services at seven agencies: USDA, DOE (weekly vendors), Interior, Justice, DOT, Treasury, and VA.</p> <p>Contractors operated some services at four agencies: DOD (food services), DOE (concessions), HUD, and DOT.</p> <p>A contractor, overseen by a recreation association, operated services at one agency: DOL.</p> <p>In general, agencies had agreements with employee/recreation associations that operated the facilities and contracts with external contractors that operated the facilities.</p> <p>Most agencies provided space and utilities for these services.</p> <p>In general, the facility operator provided staff and goods.</p>

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<b>PROCEDURES</b>	<b>RESULTS</b>
<p>Why did your agency choose that method to provide the service? Has the arrangement been effective?</p> <p>Has the agency experienced any problems?</p> <p>What are the advantages of the arrangement?</p>	<p>HUD reported that using a contractor was cost-effective. Two agencies stated that they use an employee/recreation association because agencies are not allowed to operate a store: Justice and Treasury. DOD stated that a contractor with specific knowledge is typically more effective than the agency in providing specific services.</p> <p>Eight agencies reported that the method they use to provide the services has been effective: DOD, DOE, HUD, Interior, Justice, DOL, Treasury, and VA. The other agencies providing services were not sure of the effectiveness of their arrangement.</p> <p>DOD reported that contractors may have to be replaced periodically because of performance issues.</p> <p>DOD stated that one advantage to using a contractor was the ability to bring in a different contractor when the contract expired.</p> <p>Other advantages reported by agencies included:</p> <ul style="list-style-type: none"><li>• the convenience and/or benefit for employees: DOE, Interior, Treasury;</li><li>• the reduced costs to employees resulting from bulk buying: VA;</li><li>• greater flexibility and response to consumer demand when provided by an external contractor: HUD;</li><li>• limited agency involvement when the employee/recreation association oversees the contractor: DOL; and</li><li>• no agency cost when provided by an employee/recreation association: Justice.</li></ul>

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<p>Does the agency use appropriated funds to provide the service? If so, for what purpose?</p> <p>How does the agency account for the funds?</p>	<p>DOD used minimal appropriated funds for concessions and exchange operations, utilities, transporting merchandise to be sold overseas, and for common support costs, such as fire protection, health and safety, legal, and security.</p> <p>Other than the funds used to provide space and utilities, no other agency reported that it used appropriated funds.</p> <p>In general, agencies did not respond to this question.</p>
<p>Does the agency employ staff to provide the service? If so, how many and for what purpose? Are they agency employees?</p>	<p>DOD employed staff to work in its exchanges. No other agency that responded employed staff for convenience services.</p>

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