U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

MAR 3 1 2004

MEMORANDUM FOR: SAMUEL T. MOK
Chief Financial Officer

FROM: Elliot P. Lewis
ELLIOT P. LEWIS
Assistant Inspector General for Audit

SUBJECT: DOL Report on Performance and Accountability Audit,
CFO Findings and Recommendations,
September 30, 2003
Final Report No. 22-04-002-13-001

Attached is the final CFO findings and recommendations report, resulting from an audit of the Department of Labor's Report on Performance and Accountability as of and for the year ended September 30, 2003. The Office of Inspector General contracted with the independent certified public accounting firm of R. Navarro & Associates, Inc., CPAs (RNA) to perform this audit. The contract required that the audit be done in accordance with auditing standards generally accepted in the United States of America (GAAS), Government Auditing Standards (GAS), and Office of Management and Budget audit requirements.

This report contains prior and current year recommendations pertaining to compliance with laws and regulations, reportable conditions and management advisory comments. Furthermore, this report does not contain current or prior year findings and recommendations pertaining to the audit of the Department's general controls and security over EDP systems that support the financial statements in accordance with the General Accounting Office's audit guidelines. A separate report is being issued to the Chief Information Officer containing EDP related findings and recommendations for resolution.

We reviewed RNA's report and related documentation and inquired of its representatives. However, RNA is responsible for the attached CFO findings and recommendations report and the conclusions expressed in the report. Our review disclosed no instances where RNA did not comply, in all material respects, with auditing standards generally accepted in the United States of America (GAAS), Government Auditing Standards (GAS), and Office of Management and Budget audit requirements.

Management's comments have been included in their entirety after each recommendation. Please provide for each of the unresolved recommendations presented in the final report a corrective action plan by June 30, 2004. Please notify us when corrective action has been completed on any particular recommendation and we will review and verify the adequacy of the corrective actions taken. If you have any questions, please contact Michael T. McFadden, Office of Accountability Audits, on 693-5144.

Attachment

**FINDINGS AND RECOMMENDATIONS TO THE
CHIEF FINANCIAL OFFICER
AS A RESULT OF AN AUDIT OF THE
U.S. DEPARTMENT OF LABOR'S
REPORT ON PERFORMANCE AND ACCOUNTABILITY**

SEPTEMBER 30, 2003

This audit was performed by CPAs under contract to the Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

Elliot P. Lewis

Assistant Inspector General for Audit

**Report Number: 22-04-002-13-001
Date Issued: March 31, 2004**

**R. Navarro & Associates, Inc.
Certified Public Accountants**

ACRONYMS

A&E	Architecture and Engineering
A/OPC	Agency/Organization Program Coordinators
APO	Accountable Property Officer
BAM	Benefit Accuracy Measurement
BLS	Bureau of Labor Statistics
BPC	Benefit Payment Control
BPS	Bill Payment System
CAMO	Capitalized Asset Management Officer
CATARS	Capitalized Asset Tracking and Reporting System
CE	Claims Examiner
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CIP	Construction in Progress
COTS	Commercial Off the Shelf
CT	Career Transition
CTS	Career Transition Services
DBFS	Division of Budget and Facilities Support
DCMWC	Division of Coal Mine Workers' Compensation
DFSS	Division of Financial Systems and Services
DHHS/PMS	Department of Health and Human Services, Payment Management System
DLMS	Department of Labor Manual Series
DOL	U. S. Department of Labor
DOLAR$	Department of Labor Accounting and Related Systems
DWCFF	Division of Working Capital Fund Financing
EDP	Electronic Data Processing
EIMS	Enterprise Information Management System
EPMS	Electronic Property Management System
ESA	Employment Standards Administration
ETA	Employment and Training Administration
ETO	Employment and Training Order
FECA	Federal Employees Compensation Act
FFMIA	Federal Financial Management Improvement Act
FMRS	Financial Management Reporting System
FPO	Federal Project Officer
GAAP	Generally Accepted Accounting Principles
GAO	General Accounting Office
GED	General Educational Development
GPRA	Government Performance and Results Act
JC	Job Corps
JCDC	Job Corps Data Center
JFMIP	Joint Financial Management Improvement Program
JTPA	Job Training Partnership Act
MCA	Managerial Cost Accounting
OAPS	Office of Accounting and Payments Services
OASAM	Office of the Assistant Secretary for Administration and Management
OCFO	Office of the Chief Financial Officer
OFAS	Office of Financial and Administrative Services
OGCM	Office of Grants and Contract Management

OIG	Office of Inspector General
OMB	Office of Management and Budget
OWCP	Office of Workers' Compensation Programs
OWS	Office of Workforce Security
PMO	Property Management Officer
PP&E	Property, Plant and Equipment
PRH	Policy and Requirements Handbook
RMO	Responsible Mine Operator
SFFAS	Statement of Federal Financial Accounting Standards
SPAMIS	Student Pay Allotment and Management Information System
SSA	Social Security Administration
UCAC	Unemployment Compensation Advisory Council
UI	Unemployment Insurance
UIDB	Unemployment Insurance Data Base
UIDV	Unemployment Insurance Data Validation
UIS	Unemployment Insurance Service
VETS	Veterans’ Employment and Training Services
WCF	Working Capital Fund
WIA	Workforce Investment Act

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Mr. Samuel T. Mok
Chief Financial Officer
U. S. Department of Labor
Washington, DC 20210

Independent Auditors' Report to the Chief Financial Officer as a Result of an Audit of the U.S. Department of Labor's Report on Performance and Accountability

We have audited the Report on Performance and Accountability of the United States Department of Labor (DOL) for the year ended September 30, 2003, and have issued our report thereon dated December 18, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statement audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, Audit Requirements for Federal Financial Statements.

In planning and performing our audit, we considered DOL's internal control over financial reporting by obtaining an understanding of the Department's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted certain matters, discussed in the following pages, involving the internal control and its operation that we consider to be reportable conditions and other conditions considered to be management advisory comments.

With respect to internal control related to performance measures reported in the Department's FY 2003 Report on Performance and Accountability, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined whether they have been placed in operation, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

This report does not contain current or prior year findings and recommendations pertaining to the audit of the Department's general controls and security over Electronic Data Processing (EDP) systems that support the financial statements in accordance with General Accounting Office (GAO) audit guidelines. A separate report is being issued by the Office of Inspector General (OIG) to the Chief Information Officer containing EDP related findings and recommendations for resolution.

The Independent Auditors' Report, which expresses our opinion on the fair presentation of DOL's FY 2003 principal financial statements, and our reports on internal control and compliance with laws and regulations, are presented in the Department's FY 2003 Report on Performance and Accountability.

In order to provide information to management that could help in the development of responses and corrective actions for the instances of noncompliance and reportable conditions and other conditions noted (management advisory comments), we are providing the following findings and recommendations to the Chief Financial Officer (CFO).

This report is intended solely for the information and use of the management of the DOL, OMB and Congress, and is not intended to be used and should not be used by anyone other than these specified parties.

December 18, 2003

R. Navarro & Associates, Inc.

The following chart summarizes the open recommendations by area of concern and the year first identified:

AUDIT AREA	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	Total Open
Compliance with Laws and Regulations:													
Managerial Cost Accounting											1		**1**
Reportable Conditions:													
Property and Equipment								1		4		5	**10**
Accounting for Grants								3					**3**
Unemployment Trust Fund										1			**1**
Federal Employees Compensation Act												1	**1**
Management Advisory Comments:													
Job Corps Data Center Operations												1	**1**
Accounting for Grants					1					1			**2**
Unemployment Trust Fund						1			2				**3**
Procurement								3					**3**
Black Lung Disability Trust Fund								1					**1**
Federal Employees Compensation Act												2	**2**
Performance Measures	2												**2**
Property and Equipment												1	**1**
Total Open Recommendations	**2**				**1**	**1**		**8**	**2**	**6**	**1**	**10**	**31**

Compliance with Laws and Regulations

1. Managerial Cost Accounting

Prior Year Findings and Recommendations

Implementation of Managerial Cost Accounting

In the FY 2002 audit (OIG Report No. 22-03-003-13-001), the OIG reported that DOL was not in compliance with the requirements for managerial cost accounting (MCA) contained in Statement of Federal Financial Accounting Standards (SFFAS) No. 4. Specifically, DOL had not defined outputs for its operating programs nor developed the capability to routinely report the cost of outputs at the operating program and activity levels. Further, DOL did not adequately link cost information to performance measures at the operating program level for use in managing program operations on a routine basis or use managerial cost information for purposes of performance measurement, planning, budgeting or forecasting.

The determination that DOL did not comply with SFFAS No. 4 led to a conclusion that DOL did not substantially comply with the requirements of the Federal Financial Management Improvement Act (FFMIA). [DOL management concurred with the majority of our identified managerial cost accounting deficiencies; however, the Secretary of Labor disagreed with our conclusion on compliance with FFMIA and maintained that DOL financial management systems were in substantial compliance with FFMIA.]

The FY 2002 report included the following recommendation:

- ***We recommend that the Chief Financial Officer ensure the full implementation of the comprehensive Department-wide plan as described in the above recommendation by January 28, 2006.***

In FY 2003 management developed a comprehensive plan to implement MCA within the Department. The plan provides an overall strategy for MCA implementation and high-level plans for individual agencies to initiate and execute in order to move toward meeting DOL's MCA needs. It calls for a 14-month timeframe to implement the initial MCA capability throughout DOL.

This recommendation is **resolved and open** pending full implementation of the MCA plan. While management continues to maintain that the Department's financial management systems are in substantial compliance with the FFMIA, our determination that the Department is not currently in compliance with SFFAS No. 4, and consequently not in substantial compliance with FFMIA, will remain until the managerial cost accounting system is fully implemented.

Management's Response

"In accordance with the provisions and requirements of the Act and the OMB guidance thereon, the Secretary of Labor has again determined that the Department's financial systems are in substantial compliance with the FFMIA."

Auditors' Conclusion

Our audit conclusion remains unchanged.

Reportable Conditions

Reportable Conditions

1. Property and Equipment

Current Year Findings and Recommendations

Job Corps Real Property

DOL owns a significant amount of real property, which is capitalized and depreciated in the Department's accounting records, and is reported in the Department's financial statements. Most of the real property consists of land, buildings, leasehold improvements, and other structures located at contractor-operated Job Corps centers. Responsibility for managing and tracking Job Corps' real property has been delegated to two offices within the Employment and Training Administration (ETA). The Office of Job Corps' Division of Budget and Facilities Support (DBFS) is responsible for overseeing property management at the centers. The Office of Financial and Administrative Services (OFAS) is responsible for updating the property subsidiary system, the Capitalized Assets Tracking and Reporting System (CATARS), based on documentation received from DBFS. OFAS is also responsible for reconciling CATARS to the general ledger Department of Labor Accounting and Related Systems (DOLAR$).

Our audit found that OFAS did not sufficiently utilize CATARS as a complete property management system in accordance with the CATARS user guide, and did not establish sufficient controls to ensure that Job Corps' capitalized real property was safeguarded and accurately reported in CATARS and DOLAR$. Specifically, we found the following:

- Annual physical inventories were not performed.
- Certain capitalized additions and dispositions were not recorded in CATARS or the general ledger (DOLAR$).
- Property descriptions included in CATARS were not sufficient to verify existence and condition of the corresponding asset.
- Land reported in the general ledger did not agree with what was recorded in CATARS.

The following is a discussion of the conditions identified in our audit.

Annual Physical Inventories Were Not Performed

Physical inventories of Job Corps' capitalized real property are not conducted at the end of each fiscal year in order to verify that the capitalized assets recorded in CATARS are actually on site and in usable condition. This is not in compliance with the U.S. DOL CATARS User Guide, Sections 2.7 and 2.72, which state respectively:

> Annual reconciliations must be performed between physical counts of property and balances recorded in the CATARS and DOLAR$ systems.
>
> Physical counts of property are conducted at the end of each fiscal year to compare the capitalized assets recorded on the books with those actually on site.

OFAS representatives told us they rely on facility site surveys performed by a Job Corps' architecture and engineering (A&E) contractor to ensure the existence of Job Corps' real property. The facility site surveys are performed at each Job Corps center once every 3 years and are used to assess Job Corps' capital needs, giving priority to such factors as safety and health improvements, handicapped accommodations, and other site structural needs. Job Corps management uses these surveys to make decisions on how to best utilize their construction budget.

For financial statement purposes, annual physical inventories should be used to support management's assertions as to the completeness, existence and valuation of the assets reported in the financial statements. This is accomplished by verifying the physical existence and condition of property via onsite inspections, and reconciling the specific items inventoried to those recorded in the subsidiary and general ledger systems. Physical inventories are also used as a means to ensure that assets are properly safeguarded against waste, loss, unauthorized use, or misappropriation, as required by the Federal Financial Management Improvement Act of 1996 (31 U.S.C. 3512(c), (B)).

The facility site surveys performed for Job Corps real property did not provide these critical inventory controls because information obtained in the physical inspections was not associated, cross-referenced, or reconciled with property information recorded in CATARS and the corresponding balances recorded in DOLAR$. As a result, Job Corps real property was not sufficiently safeguarded against waste, loss, unauthorized use, or misappropriation, and was not accurately recorded in the Department's financial statements as discussed in further detail throughout this finding.

OFAS officials agreed that the site surveys were not sufficient and should not serve as a substitute for the annual physical inventory. We were informed that OFAS was in the process of conducting an inventory, which they expect to complete by December 31, 2003.

Certain Capitalized Property Additions and Dispositions Were Not Recorded in CATARS or the General Ledger (DOLAR$)

When construction of Job Corps real property is completed, DBFS provides OFAS with a copy of the "Certificate of Substantial Completion." This notifies OFAS that the property has been placed in service and is ready to be entered into CATARS as a depreciable capital asset. Our tests of 48 construction in progress (CIP) contracts recorded both in DOLAR$ and CATARS indicated that 22 contracts (46 percent) with a cost basis in excess of $28 million were not transferred from CIP to the appropriate depreciable asset account. Certificates of Substantial Completion were issued for all structures completed under the 22 contracts.

DBFS officials informed us that two of the 22 contracts not transferred from CIP to the depreciable asset accounts were the subject of pending legal claims. However, it is our position that these contracts should be transferred to depreciable asset accounts because the assets were completed and placed in service. If additional costs are incurred due to a legal settlement, such costs can subsequently be added to the basis of the building.

SFFAS No. 6, paragraph 34, states in part:

> In the case of constructed Property, Plant and Equipment (PP&E), the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E.

We also determined that real property dispositions were not consistently recorded in CATARS or the Department's general ledger. For the 12 Job Corps centers visited during our audit, we compared the capitalized real property in CATARS to the facility site surveys and followed up with DBFS officials on differences found. We identified 13 real property items with a cost of $2.0 million and a net book value over $386,000 that had been disposed or were no longer in use. These items were still recorded as depreciable property in CATARS as of July 31, 2003. For example, at the Cassadaga Job Corps Center, we found that two real property items, both identified in CATARS as "Stockton School," were disposed of around 1996. At the Turner Job Corps Center, we found two buildings that were no longer in use but were still being depreciated in CATARS and DOLAR$.

We obtained a list of Job Corps buildings, demolished between October 1, 2002 and March 31, 2003, and found that 13 of the 14 buildings with a cost of $2.7 million and a net book value of over $866,000 were still reflected as depreciable assets in CATARS.

These findings are contrary to requirements outlined in the U.S. DOL CATARS User Guide, Section 2.5 Removal from Service, which states:

> Property that is removed from service because it is damaged, obsolete, or identified as excess will not be depreciated and will be designated as removed from service.

We concluded that CATARS was not consistently updated and did not reflect an accurate record of depreciable real property. This was attributed to inadequate procedures covering the exchange of information between OFAS and DBFS, and to the fact that annual physical inventories were not conducted which would have identified unrecorded property additions and deletions.

As a result, depreciable real property recorded in CATARS and DOLAR$ was understated by approximately $24 million. In addition, this net understatement of depreciable real property resulted in an understatement of the depreciation expense associated with these assets.

OFAS officials generally agreed with these findings, and indicated that appropriate action will be taken to adjust CATARS by the end of the fiscal year. OFAS officials also indicated that procedures will be implemented to ensure data on additions and dispositions are obtained from the DBFS' contractor on a monthly basis so the assets can be entered or removed from CATARS in a timely manner. Concerning contracts in CIP, OFAS officials stated they will take immediate corrective action to move completed assets to the building accounts. They will conduct a monthly review of contracts in CIP and follow up with DBFS to ensure completed assets are capitalized. OFAS officials also stated they will modify the procedures for contracts in CIP that are pending legal claims.

Asset Descriptions Were Not Sufficient to Verify Existence

Our audit found that descriptions of buildings, leasehold improvements, and capital improvements recorded in CATARS were not consistently sufficient to identify the specific asset. During our visits to the 12 Job Corps centers, we used a non-statistical sampling approach to test the existence of capitalized Job Corps real property in CATARS as of May 31, 2003. This included a random selection at 10 centers and a judgmental selection at 2 centers. The sample size of 122 was judgmentally determined but sufficient to allow us to make conclusions on capitalized real property at the Job Corps centers. We were not able to verify the existence of 16 items (13 percent) because the description recorded in CATARS was insufficient**.** For example, there were 12 real property items listed on CATARS for the Los Angeles Job Corps Center, of which four were described simply as "B" or "BB" and one was described as "San Jose." Neither the auditors, nor the Los Angeles Job Corps Center officials, were able to determine what these items were.

Other examples of vague CATARS property descriptions include: the name of the Job Corps center to describe multiple items at the Center, and architecture and engineering contract numbers that do not identify specific real property assets.

The DOL Manual Series (DLMS) 2 Administration, Chapter 100 – Property Management, paragraph 114, Core Data Elements states in part:

> The following is a list of required common data elements and definitions to be used by the Departmental Property Accountability Program . . . (g) Description Contains identifying information.

We concluded that the asset descriptions were not sufficient because OFAS and DBFS do not have effective procedures for obtaining property descriptions, or for verifying the accuracy and sufficiency of property information entered into CATARS. As a result, certain property recorded in CATARS cannot be identified, tracked or accounted for in the inventory process. This situation increases the risk that Job Corps' property may be subject to loss or misuse, and that property may be inappropriately valued or classified in the Department's general ledger and financial statements.

OFAS officials told OIG that they recognized this problem and began work this year to improve the vague asset descriptions. Our comparison of the CATARS reports generated May 14 and June 12, 2003, indicated that progress is being made to correct this problem. OFAS officials stated that 500 real property items remained to be reviewed, and that the process would be completed within the next fiscal year (September 30, 2004).

Land Reported in the General Ledger Does Not Agree With What Was Recorded in CATARS

Our audit found that a significant portion of Job Corps land owned by the Department was not recorded in CATARS. As of July 31, 2003, approximately $63.8 million was recorded in general ledger account number 1710 (Land), however, land recorded in CATARS totaled only $6.9 million. Further investigation of these differences indicated that two additional parcels of land valued at approximately $13 million were recorded in DOLAR$ and CATARS as buildings rather than land. As a result, the cost basis of Job Corps land reported in CATARS was understated by approximately $70 million. In addition, the financial statements were misstated by $13 million for the land misclassified as buildings, and by the amount of accumulated depreciation erroneously recorded for the land ($297,630 as of 7/31/03). In addition, land costs were not allocated to specific structures as required in SFFAS No. 6.

These findings are contrary to requirements outlined in the U.S. DOL CATARS User Guide, Sections 2.7 and 2.7.1, which state respectively,

> Performing a reconciliation means making adjustments so that amounts in two different places agree. For capitalized assets, two kinds of reconciliations must be performed for each internal accounting code… .

> On a monthly basis, reconciliations should be performed between CATARS and DOLAR$. These reconciliations should first focus on whether the ending balances for property and accumulated depreciation agree between the CATARS and DOLAR$ systems.

OFAS officials could not provide an explanation as to why land was not accurately recorded in CATARS, however, it was evident that sufficient procedures were not in place to reconcile CATARS to the corresponding balances recorded in DOLAR$. OFAS officials indicated that current and future land acquisitions that meet the capitalization threshold would be entered into CATARS on a timely basis. Management subsequently obtained information from the Job Corps' A&E contractor on the land and recorded approximately $57 million in adjustments to CATARS as of year-end. The OIG was informed that the two properties currently recorded in the building account would be adjusted in CATARS and DOLAR$ early in the next fiscal year.

Recommendations

We recommend the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that:

1. **an annual physical inventory of all Job Corps real property is performed and the inventory results reconciled to CATARS and DOLAR$;**

2. **additions and dispositions are recorded timely in CATARS by developing and implementing quarterly procedures to:**

    a) **transfer CIP balances recorded in CATARS to the appropriate depreciable asset account, where the DBFS records of contracts/structures indicate that Certificates of Substantial Completion have been issued;**

    b) **reconcile DBFS records for dispositions to the A&E contractor records and to entries in CATARS; and**

    c) **reconcile DBFS records of additions and deletions to OFAS records of additions and deletions recorded in CATARS;**

3. **procedures are implemented to ensure that sufficient descriptive details of all capitalized property items are obtained and corrected in CATARS for existing property, and are added to CATARS for future acquisitions;**

4. **total land costs are recorded in CATARS and allocated to the specific Job Corps center; and**

5. **procedures are implemented to ensure that property recorded in CATARS is reconciled monthly to property recorded in DOLAR$, and all adjustments identified in the reconciliation process are recorded on a timely basis.**

Management's Response

ETA RESPONSE TO #1

"ETA is in the process of conducting an annual inventory. The target date for completion is December 31, 2003. Every year thereafter an annual inventory will be completed on or before December 31.

Financial constraints will preclude on site physical inspection of each building at the time of inventory verification. ETA will oversee the execution of a physical inventory by Regional Job Corps staff, with verification noted on the CATARS Physical Inventory Report that there has been a physical observation within the past year."

Auditors' Conclusion

We obtained certain clarifications from ETA regarding its response to this recommendation, and were informed that the physical inventory planned by management involves certification from Job Corps contractor staff as to the physical existence of property items located at their respective Job Corps center. The inventory process does not call for ETA staff to perform onsite physical inspections of capitalized property.

We do not concur that this process will satisfy the requirements that all agencies conduct annual physical inventories of their property and equipment. To ensure adequate segregation of duties, individuals who do not maintain physical custody of the assets should conduct the physical inventory. While it may be appropriate to utilize Job Corps center staff to assist in the inventory, ETA should have some level of involvement in the physical inspection process.

The Office of Job Corps currently requires its regional offices to conduct biannual onsite reviews of each Job Corps center, as well as periodic (two to three times per year) monitoring reviews. These reviews often include verification of the Electronic Property Management System (EPMS) property located at the center. We conclude that these onsite reviews provide ETA with a potential means by which to physically inspect capitalized property located at the respective Job Corps center with very minimal increase in cost.

Furthermore, management's response does not address the second part of the recommendation pertaining to reconciliation of property identified in physical inventories to that recorded in CATARS and DOLAR$. This recommendation is **unresolved** pending the development of an appropriate plan of corrective action.

Management's Response

ETA RESPONSE TO #2

"In general, ETA will follow the guidance contained in the OCFO Capitalized Asset Tracking and Reporting System Users Guide, (revised December 2002) for handling capitalized real property. In the case of JC real property, OFAS and JC, DBFS have begun to review its existing processes. To the extent appropriate, these processes will be restructured to achieve the necessary communications to strengthen our property management systems.

We have obtained from JC, DBFS the listing of the demolished items identified by the auditors as still reflected in CATARS. ETA adjusted CATARS for these items by fiscal year end.

Beginning in fiscal year 2004, McKissack and McKissack will provide ETA, OFAS addition and disposal data monthly, to ensure real property assets are entered and removed in CATARS without delay."

Auditors' Conclusion

We concur with ETA's plan to review and strengthen existing processes. This recommendation is **unresolved** pending the outcome of management's review and an assessment of the resulting plans for corrective action.

Management's Response

ETA RESPONSE TO #3

"Recognizing the concern property descriptions presented, in FY 2003, OFAS, Job Corps, Division of Budget and Facilities Support (JC, DBFS) staff, and the JC contractor for real property, McKissack & McKissack, developed and implemented a solution to address real property description.

The solution: Assign to each item of real property a uniform building code unique to each Job Corps center. The serial number field in CATARS captures a ten-digit serial number (building code) unique to the respective Job Corps center. The last five digits of this building code identifier classify the real property items.

The solution required modification of DOL's Capitalized Asset Tracking and Reporting System (CATARS). ETA sought and obtained approval from the Office of the Chief Financial Officer (OCFO) to modify CATARS.

ETA agrees, as outlined in the CATARS Users Guide (draft dated December 2002), that CATARS assists management's stewardship, accountability, and control duties, tracking items by location and Accountable official. It also enables compliance with Federal GAAP, and contains approximately 6,000 ETA items.

Implementation of the solution commenced May 2003.

With just a little over 500 real property items remaining, ETA hopes to have all of the approximate 6,000 items identified by fiscal year end. An accomplishment noted in your statement of facts.

Of the five real property items at the Los Angles Center that the auditors could not locate, four represented architectural and engineering (A&E) contracts. A&E contracts represent costs associated for services other than construction. For example, designs, plans, specifications, and surveys. A&E items typically are not assigned building code numbers. The last item was coded improperly to the Los Angles center, which will be corrected by September 30, 2003.

We recommend that at succeeding entrance conferences on JC real property, ETA OFAS and JC, DBFS staff participate in providing a detailed briefing on the data in our systems. The purpose will be to clarify questions or concerns about the data the auditors will be using in their sample review, and explain those entries that represent A&E services associated with the construction of a building, not the building itself."

Auditors' Conclusion

While we recognize that management has made efforts to resolve this finding, we do not concur that the building codes described by management will suffice as an adequate description of capitalized property. The objective of this recommendation is to ensure that sufficient information, i.e., property descriptions, are captured in CATARS so that reports can be generated and used for physical inventory purposes. Currently, some items recorded in CATARS have adequate descriptions that are conducive to physical identification of the property, while many do not. Our recommendation was that ETA ensure that all capitalized property is adequately and uniquely described in CATARS.

The codes described by management will not provide a description of the property and would require an additional list that defines what the code represents. In addition, we were informed that there will not be a unique code for each property item, rather, there will be some shared codes. This precludes the use of the code to identify and inspect a specific property item.

As to A&E costs, these are valid design costs incurred for specific buildings or improvement projects and should be associated with and capitalized as part of the total cost of each specific building or improvement. (A&E costs should also be depreciated over the estimated useful life of the property.) A&E costs do not need to be recorded as a separate property item in CATARS just because the costs were paid to a different contractor, however, we do not take exception to ETA setting up separate items for A&E costs, as long as the description is clear, the date the item was placed in service is correct, and the useful life mirrors that of the property with which the A&E costs are associated. This recommendation is **unresolved** pending submission of a corrective action plan that will resolve the issues raised in this recommendation.

Management's Response

<u>ETA RESPONSE TO #4 & #5</u>

"Recognizing the inherent value of the site survey data, ETA agrees that it must resolve issues between its records in CATARS and McKissack & McKissack site survey to capture all items. OFAS efforts to resolve these differences continue. No less than quarterly, reconciliation between CATARS and McKissack & McKissack data will provide the assurance that all real property assets recorded in McKissack and McKissack's database, are captured in CATARS.

Each month OFAS reviews the automated reconciliation report provided by CATARS. This review is performed to highlight adjustments that may be needed to ensure the integrity of the financial data in CATARS and DOLAR$. ETA, OFAS will use the quarterly reconciliation performed between CATARS and McKissack and McKissack's data to support the reconciliation between CATARS and DOLAR$. These periodic reconciliation's between McKissack & McKissack data and CATARS may increase should the need dictate.

Further ETA will explore the use of the reconciliation format contained in the CATARS Users Guide (draft dated December 2002) as yet another means to make certain differences between CATARS and DOLAR$ are identified, and adjustments made, accordingly.

ETA will make certain that current and future land acquisitions, which meet the threshold, are entered into CATARS.

In many cases, however, real property is acquired without differentiation between building and land. Furthermore, there are also instances where land is acquired from a state or local government for a nominal fee. To address these aspects of land acquisition, ETA has implemented a practice whereby, McKissack & McKissack will capture and report land separately on future real property acquisitions.

For some existing real property land not currently captured in CATARS, ETA has obtained information, from McKissack & McKissack that will support efforts to do so. ETA will make every effort to adjust CATARS for this real property land by fiscal year end."

Auditors' Conclusion

We concur with ETA's corrective action plan for recording and allocating land in CATARS. Recommendation 4 is **resolved and open.** Closure is dependent upon the accuracy of land balances as recorded in the FY 2004 financial statements and subsidiary records, and on implementation of the planned procedures to ensure ongoing accuracy of DOL's real property balances.

However, management's response is unclear as to the revised procedures that have been or will be implemented to reconcile CATARS to DOLAR$ and to timely record any adjustments identified in the reconciliation process. Recommendation 5 is **unresolved** pending the sufficiency of reconciliations performed in FY 2004 and the relevant procedures implemented in response to this recommendation.

Status of Prior Year Findings and Recommendations

Accountable Property

In the FY 2001 Findings and Recommendations to the Chief Financial Officer (OIG Report No. 22-02-004-13-001), the OIG reported that the Department does not have adequate accountable property systems in place. Federal law requires the Department to maintain effective control over, and accountability for, assets for which the agency is responsible, and to safeguard these assets against waste, loss, unauthorized use and misappropriation. These assets include both assets capitalized for financial statement purposes and other "accountable property." The OIG noted that several agencies did not have adequate written procedures and systems developed for identifying and tracking accountable property, and made the following recommendations:

- ***We recommend that the Chief Financial Officer ensure that the Assistant Secretary for Administration and Management establish written Department-wide procedures, including the Joint Financial Management Improvement Program's (JFMIP) property management system requirements, for identifying and tracking all accountable property.***

- ***We recommend that the Chief Financial Officer ensure that the Assistant Secretaries for Administration and Management, Employment and Training and Employment Standards identify and track accountable property to be incorporated into a property management system.***

As of FY 2003, two agencies within the Department have not implemented inventory systems to track accountable property. The status of these two agencies follows:

Office of the Assistant Secretary for Administration and Management (OASAM)

In response to the OIG's recommendations, OASAM conducted a review of current DOL property management operations during FY 2003. This review included assessing the current property management and tracking systems at the National and Regional Office levels, documenting any unmet system core functionality and requirements, describing a target property environment, verifying baseline inventory information, developing a new property management database and documenting responsibilities. Based on this review, the agency purchased Oracle Assets, a commercial off-the-shelf software package. The rollout is planned for November 22, 2004. In conjunction with implementation of Oracle Assets, OASAM will issue a revised DLMS, Chapter 100, Property Management Policy and Procedures on December 22, 2004. Based on these actions both recommendations are **resolved and open** pending effective implementation of the new system and corresponding tracking procedures.

Employment Standards Administration (ESA)

ESA did not have an adequate system in place for tracking accountable property in FY 2002. In response to our memorandum dated May 20, 2003, requesting an update on the status of prior year audit findings, ESA stated that they would continue to follow its current procedures until the Department's accountable property system is developed and implemented. No corrective actions were taken during the fiscal year.

As indicated in the OIG's FY 2002 audit report, the fact that OASAM is working on a Department-wide system does not preclude ESA from developing an interim system for tracking accountable property. Therefore, the second recommendation remains **unresolved** with respect to ESA pending receipt and review of an adequate corrective action plan.

Management's Response (OASAM)

[No further comment on either recommendation.]

Auditors' Conclusion

Our audit conclusion remains unchanged.

Management's Response (ESA)

"OIG is correct in its assessment that ESA followed its current accountable property procedures and did not develop an interim system for tracking accountable property during FY 2003. ESA anticipated that the Department-wide internet-based property management system would be developed and implemented prior to the end of FY 2003, but it was not. ESA has been an active participant in the DOL Property Management Workgroup since November 2002, provided input into the selection of the COTS (commercial off the shelf) inventory management software package, and is currently providing input to the contractors customizing the COTS product to ensure that it meets ESA's needs. ESA understands that the timeframe for completion of the OASAM/VETS pilot project is now September 2004. ESA has already begun the data gathering process and will make every effort to implement the system immediately following the pilot such that it will be able to identify and track accountable property incorporated into a property management system no later than the end of December 2004."

Auditors' Conclusion

This recommendation remains **unresolved** pending implementation of the COTS property system referred to by management, or an alternative method for tracking accountable property.

Capitalized Asset Property Management

In the FY 1999 Management Advisory Comments (OIG Report No. 12-00-006-13-001), the OIG reported that management's capitalized asset tracking and reporting procedures are inadequate to ensure that disposals of capitalized assets are reported in a timely and accurate manner, and that assets are adequately safeguarded against loss or theft. The report included the following recommendation:

We recommend the Chief Financial Officer ensure that:

- ***Accountable Property Officers (APOs) and Capitalized Asset Management Officers (CAMOs) receive adequate training in the disposal of capitalized assets.***

During FY 2003, the Department instructed agencies to perform their annual physical inventories as of June 30th. The OCFO produced CATARS Physical Inventory Reports for all agencies that were distributed by the Office of Accounting and Payments Services (OAPS) to all CAMOs. The OCFO held meetings regarding the annual physical inventory, reconciliation process, and asset disposal; however, the agency did not provide any additional training regarding asset disposal during FY 2003. The OCFO indicated that they would schedule training for January 2004. For these reasons, this recommendation remains **unresolved.**

Management's Response

"The OCFO will prepare a quarterly memorandum for all APOs and CAMOs. This memo will provide procedures to ensure that disposals of capitalized assets are reported in a timely and accurate manner, and that assets are adequately safeguarded against loss or theft. To be completed by March 31, 2004.

OAPS will prepare a training document to ensure that disposals of capitalized assets are reported in a timely and accurate manner, and that assets are adequately safeguarded against loss or theft address. The training document will be completed by 3/31/2004. APOs and CAMOs training to be completed by 6/30/2004."

Auditors' Conclusion

We concur with management's planned corrective actions. This recommendation is **resolved and open** pending implementation of these actions.

In the FY 2001 Findings and Recommendations to the Chief Financial Officer (OIG Report No. 22-02-004-13-001), the OIG made the following additional recommendations pertaining to capitalized property:

We recommend that the Chief Financial Officer and the Commissioner for the Bureau of Labor Statistics and the Assistant Secretary for Employment and Training ensure that:

- ***procedures specified in the DLMS are followed for documenting the disposal of an asset at the time it is placed out of service, transferred, donated, etc., not as a means for reconciling the physical inventory; and***

- ***Accountable Property Officers and Property Management Officers follow procedures specified in the DLMS for determining liability for lost/missing, stolen, or damaged property.***

The Department is required by law to establish internal accounting and administrative controls to reasonably ensure that all assets are safeguarded against waste, loss, unauthorized use, and misappropriation (31 U.S.C. 3512). When an asset is disposed, a DL-1-55C disposal form is required to be completed by the APO and submitted to the CAMO for entry into CATARS. The disposal form should be completed at the time of disposal and indicate the date and method of disposal. The disposal method is indicated using one of several predefined disposal codes (e.g., trade-in, salvaged/scrapped, etc.).

A physical inventory should be taken on an annual basis to determine that all of the items in CATARS exist and are in use. A reconciliation should be performed to identify potential differences between the physical inventory and CATARS, and any differences should be researched to determine if property is missing or has been misplaced. For items that are not located and for which disposal forms have not been completed, the DLMS specifies procedures to follow to determine the individual responsible for the missing item(s) and what financial liability exists. Individuals may be held financially liable if their negligence, carelessness, or dereliction of duty is found to have caused the loss, damage, or destruction of property.

At the agency level, we noted the following:

Bureau of Labor Statistics (BLS)

While BLS took some corrective action in FY 2003, one recommendation was not fully resolved. BLS continued to identify and record missing and disposed items in conjunction with the annual physical inventory, and disposals were not recorded timely. Of 72 assets disposed in FY 2003, 58 were recorded as disposed in conjunction with the year-end physical inventory. These 58 items had an acquisition cost of $2.1 million and a book value of $1.2 million. Therefore, with respect to BLS, the first recommendation remains **resolved and open** pending implementation of further corrective actions that ensure that property dispositions are recorded timely.

ETA

ETA is still not accounting for and documenting asset disposals on a timely basis. ETA stated it only completes disposal forms when physical inventories are taken. ETA performed their annual physical inventory as of September 30. Accordingly, the first recommendation remains **unresolved** with respect to ETA pending receipt and review of a corrective action plan with timeframes for completion.

As of October 7, 2003, ETA was unable to provide us with any DL-1-55C disposal forms that resulted from the year-end physical inventory. We are therefore unable to determine if ETA is properly researching the reasons for disposal. As a result, the second recommendation, as pertains to ETA, remains **unresolved**.

OCFO (Working Capital Fund (WCF))

In response to the OIG's recommendations, the agency stated that a process would be established to ensure DL-1-55C forms would be issued throughout the year as assets are removed from service and disposed. During FY 2003, the OCFO only disposed of two items with a net book value of $810. We do not believe that these transactions provide us with enough information to make a determination if management's corrective action plan is being effectively implemented. Therefore, both recommendations remain **resolved and open** for OCFO (WCF).

Management's Response (BLS)

"BLS property staff will conduct periodic inventory reviews of its capitalized assets. Accountable Property Officers (APO) will prepare and forward to the Capitalized Asset Management Officer (CAMO) DL1-55 forms when capitalized asset are disposed throughout the year. The CAMO will work closely with the property staff and APO's to ensure disposals are recorded in CATARS in a timely manner. BLS will provide annual written notifications to APOs on their property management responsibilities, including procedures to follow concerning lost/missing, stolen, or damaged property. BLS will continue to work with APOs to ensure that these procedures are followed."

Auditors' Conclusion

We concur with the actions described by management. The first recommendation remains **resolved and open** pending implementation of the corrective actions, and evidence that FY 2004 asset disposals were processed timely in accordance with DLMS requirements.

Management's Response (ETA)

"Procedures were issued to ETA Regional Administrator's and Accountable Property Officers (APO) on June 4, 2003. The APO's are at the senior executive or executive level. To ensure compliance with procedures issued, OFAS, as ETA's Property Management Officer (PMO), will implement a quarterly review (physical inventory) by the APO's, or their respective designate to ensure that the accountable personal property identified for disposition is done so pursuant with these procedures. ETA's Office of Financial and Administrative Management Administrator will be notified of APO's that do not respond.

OFAS did perform the annual physical inventory for Fiscal Year 2003. Electronic notification was sent to the (APO) about the requirement to furnish the DL-1-55C Disposal Forms for changes to their accountable property inventory. ETA will continue to follow up with the APO's or their designees to obtain the disposal forms from September 30.

Lastly, the Department of Labor has embarked upon an enterprise wide E-Property Management System solution. This solution may alter the current procedures for asset disposal, and determining liability for lost missing, stolen, or damaged property. In summary, ETA recommends that this finding be closed."

Auditors' Conclusion

We concur with the planned actions described by management and consider both recommendations **resolved and open**. Closure is dependent upon evidence that FY 2004 asset disposals were appropriately processed and documented at the time the asset was taken out of service, and that ETA consistently adhered to other DLMS procedures for asset disposals.

Management's Response (OCFO)

"In response to the CFO Findings and Recommendations item relating to the processing and recording of the DL-1-55C forms when assets are removed from service, the Division of Working Capital Fund Financing (DWCFF) will reconcile on a monthly basis the CATARS to the DOLAR$ for WCF assets to ensure the proper recording and reporting of capital assets. In addition, regular contacts will be initiated with APOs and CAMOs to reiterate the regulatory requirements to account for capital assets. Our efforts will place an emphasis on assets removed from service, as well as the subsequent accounting transactions."

Auditors' Conclusion

We concur with the actions described by management. Both recommendations remain **resolved and open** pending implementation of the corrective actions, and evidence that FY 2004 asset disposals were processed timely in accordance with DLMS requirements.

2. Accounting for Grants

<u>Status of Prior Year Findings and Recommendations</u>

Grant Accounting Errors

In the FY 1999 audit (OIG Report No. 12-00-003-13-001), the OIG identified significant errors in the recording of ETA's grants. The report included the following recommendation:

- ***We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that procedures are established to ensure that errors made in recording grant information are identified and corrected on a timely basis. At a minimum, this should include review procedures for data input and utilization of exception reports which identify transactions with an unusual nature (such as negative cost entries).***

ETA believes that the data verification and edit checks developed for the Enterprise Information Management System (EIMS) will alleviate most of these issues. Efforts are currently under way to complete EIMS, inclusive of the interface to DOLAR$, and approval has been granted by the OCFO to begin parallel testing. The latest estimate for completion of the DOLAR$ interface is the first quarter of FY 2004.

While we do not believe that EIMS in and of itself will alleviate all potential accounting errors, we concur that completion of the EIMS cost module will reduce the occurrence of certain types of errors. Currently, the data captured in EIMS must be manipulated before it can be entered into DOLAR$, a process which increases the risk of error and delays the posting of grant costs. These risks will be significantly reduced upon completion of the DOLAR$ interface.

Other actions taken by management in FY 2003 include the issuance of Regional Office accounting procedures as well as Employment and Training Order (ETO) No. 1-03, *Improving*

Administration of Grants within the Employment and Training Administration. ETO No. 1-03 clarifies the roles and responsibilities of ETA staff in grants administration and monitoring. Despite the efforts made by ETA, our FY 2003 audit continued to identify errors in ETA's grants and contracts. Errors were noted for both regional office grants, which are not recorded through the EIMS system, and for national office grants. We have summarized the results of our testing as follows:

- We selected a random statistical sample of 105 ETA grants and contracts, including 78 National office and 27 regional office grants and contracts. At the regional offices we noted errors in various Job Corps contracts selected for testing. Specifically, we noted instances where the grant obligations, costs and/or payments recorded in DOLAR$ did not agree to supporting documentation contained in the contract files. While the net unsupported dollar amount was not considered to be material, we noted errors in six out of 27 regional documents selected for testing, an error rate of 22 percent. In addition, 12 of the 27 documents reflected accounts payable balances, of which two were found to be old balances that had been recorded in error and never cleared from the system.

- We noted errors in seven out of 78 (nine percent) national office grants and contracts selected for testing, the largest of which was related to a contract issued by the Office of Job Corps for operation of the student payment system. Cost information received from the contractor was not consistently recorded in DOLAR$ and the costs associated with this contract were understated by over $8 million as of March 2003, and $17 million as of July 2003.

- We noted that grant activity recorded in EIMS did not reconcile to corresponding activity recorded in DOLAR$. A comparison of costs recorded in EIMS for the WIA program versus those recorded in DOLAR$ identified that DOLAR$ was understated by approximately $96 million. ETA was unaware of these differences and could not provide an explanation. We concluded that this situation was caused by the fact that EIMS activity was not routinely reconciled with DOLAR$, a process that would identify any differences between the two systems. While not as extensive, we found similar differences totaling $1.2 million for a sample of Native American grants.

- In FY 2002, our audit identified over $20 million in negative cost entries posted in error to the FY 2000 Migrant grants (over 40 documents). These entries reversed costs recorded in prior periods and created invalid advance balances in DOLAR$. These errors were not corrected in FY 2003.

The audit results indicate that improved procedures are necessary relative to detecting and correcting grant errors at the National and regional offices. These procedures should include but not be limited to completion of the EIMS interface to DOLAR$ and routine reconciliation of EIMS data to the data recorded in DOLAR$. This recommendation remains **unresolved**. Resolution is dependent upon implementation of improved procedures for detecting and correcting potential grant errors at both the National and regional offices, and on a positive outcome for grant testing conducted during the FY 2004 audit.

Management's Response

"ETA is reviewing its current processes in order to more expeditiously detect and correct grant errors in both the National and regional offices. This includes the reconciliation of costs between EIMS and DOLAR$. Currently, ETA is establishing parameters for various managerial reports and reconciliations that will aid ETA in controlling and resolving grant discrepancies in a more timely fashion. The DFSS and the EIMS work group have been addressing the need for quality control for all of the processes, which must be from beginning to end.

The understatement of costs for the Job Corps contractor for student payments system, SPAMIS, costs differences were reduced from $11 million in June to $109,130.00, as of the DOLAR$ report dated 9/30/03.

EIMS discrepancies were reviewed prior to Fiscal Year 2003 year end closing and they were posted in the DOLAR$. These discrepancies arose because reports were not being certified timely by Federal Project Officers (FPOs) and a systemic problem related to the categories in WIA cost reporting.

Discrepancies noted in the migrant program for Program Year 2000 were reviewed and $18.7 million in cost differences were identified and subsequently uploaded to DOLAR$ prior to the ending of Fiscal Year 2003. Also, discrepancies in the Program Year 1999 migrant program are being reviewed and upon completion, needed corrections will be made."

Auditors' Conclusion

We concur with the steps taken by management to review and revise current processes, including the development of useful managerial reports and EIMS reconciliation procedures. However, this recommendation remains **unresolved** pending the outcome of management's review and an assessment of the resulting plans for corrective action.

Delinquent Grantee Reporting

Over the past several years, OIG audits have identified delinquent reporting on the part of ETA's grantees and contractors. The FY 1999 audit (OIG Report No. 12-00-003-13-001) included the following recommendation:

- ***We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training establish procedures for monitoring grantee reporting. At a minimum, these procedures should provide for the timely identification of delinquent cost reports and appropriate follow up efforts with grantees.***

In recent years, ETA has made various efforts to obtain and record delinquent cost reports from its grantees. Notices were sent to the regional offices stressing the importance of obtaining delinquent cost reports, and features were added to the EIMS cost system to identify untimely reporting by grantees. In FY 2003, ETA issued delinquency notices to selected grantees, and issued internal grant administration procedures in ETO 1-03, *Improving Administration of Grants within the Employment and Training Administration*, which clarifies the roles and responsibilities of ETA staff in grants administration and monitoring. In addition, ETA issued written regional accounting procedures that include procedures for identifying and resolving delinquent grantee reporting.

Regardless of the actions taken by ETA, significant reporting delinquencies were identified in the FY 2003 audit. The June 30, 2003, Detailed Grant Report reflected over 350 documents, with approximately $230 million in advances, where grantees had not reported any costs since the grant's inception. These results are essentially the same as those noted in the FY 2002 audit. In addition, the June 30, 2003, Detailed Grant Report reflected over 380 documents with approximately $303 million of beginning advance balances (e.g., balances carried over from FY 2002), but no costs were recorded in FY 2003. In fact, the advance balances for these 380 documents increased from $303 million at September 30, 2002, to approximately $366 million as of June 30, 2003. Our analysis of other large advance balances identified additional grantees who were one or two quarters delinquent in submitting cost reports.

Based on our findings, it is apparent that additional follow-up and monitoring is necessary to ensure that grantees submit missing cost reports and that their cost reporting remains current. In response to our FY 2003 audit results, management contacted many grantees whose documents reflected zero recorded costs and obtained over $20 million in missing cost reports. We encourage management to continue with this process throughout FY 2004. This recommendation remains **resolved and open.** Closure is dependent on evidence of improved grantee reporting in FY 2004.

Management's Response

"ETA will send electronic notification monthly of delinquent grantees' costs reporting to Program and Administrative officials. If delinquent grantees fail to submit costs reports, OFAS will send two letters of "delinquency" notifications to the grantees' with copies to the OGCM, requesting that the delinquent grantees be designated "high risk," and that appropriate action be taken.

Additionally, OFAS will pursue utilizing the Department of Health and Human Services' Payments Management System (DHHS_PMS) for monitoring the grantees' Federal Cash on Hand, which is required by the OCFO's DLMS 6, and the 29 CFR 95 regulations. DHHS-PMS provides 2-way electronic transfer of 272 data between PMS and recipient organizations. Utilizing this management tool will aid ETA in being pro-active in preparing its grantees for the impending transition to E-GRANTS and in its cash management of grants.

Further, OFAS will recommend that when grantees/contractors are "vetted" for new/additional funding that an additional line/section be placed on the clearance form, which would allow OFAS to record/reflect whether or not the grantee/contractor is delinquent in cost reporting. If they are delinquent, the grantees/contractors should be required to fax their delinquent reports immediately before clearance is given for funding. Funding should be withheld until past due cost reports have been received.

OFAS will further recommend that the FPOs be required to review grant/contract status of grantees/contractors to make sure that grantees are not delinquent in their reporting and obtain delinquent cost reports before any requests for modifications to grants/contracts are submitted to OGCM.

ETA has developed two letters that notify the grantees of their "high risk" posture and the need for the submission of their financial status reports. Additionally, ETA is developing other tools and processes to improve the responsiveness of ETA's grantees, such as, (1) the issuance of a monthly report identifying grantees with "zero" balances (2) the issuance of monthly reports to Program/OGCM officials listing grantees who are delinquent in their reporting and (3) ETA's EIMS workgroup is establishing the parameters to be used in developing other tools to aid in this process."

Auditors' Conclusion

We concur with the actions described by management and conclude that this recommendation is **resolved and open**. Closure is dependent upon implementation of these actions, and evidence that these actions have improved grantee reporting practices and substantially reduced the number of delinquent cost reports in FY 2004.

Accounting for Workforce Investment Act (WIA) Transfers

In the FY 1999 audit (OIG Report No. 12-00-003-13-001), the OIG reported that ETA did not account for funds transferred within the Job Training Partnership Act (JTPA) program, even though funds were moved between grants and appropriation accounts. While the JTPA program has since been closed, a similar situation currently exists with the WIA program. Under WIA, grantees are allowed to transfer funds between the adult and dislocated worker programs. These transfers are captured in EIMS but are not recorded in DOLAR$. Rather, the funds are recorded in the general ledger and reported to Treasury as if they were expended for the original program component.

The FY 1999 report included the following recommendation:

We recommend that the Chief Financial Officer and the Assistant Secretary of Employment and Training ensure that controls are implemented over JTPA transfers or similar provisions of successor programs (such as the Workforce Investment Act), including:

- ***procedures to account for JTPA (WIA) transfers, which ensure that transfers between appropriation accounts are accounted for in accordance with OMB guidance and that all program costs are accurately recorded for each program.***

ETA referred the matter to OMB for resolution. We independently submitted all supporting documentation to OMB for review and as of October 2003 we had not received a response. This recommendation remains **unresolved** pending receipt and analysis of OMB's opinion regarding this issue, and on implementation of appropriate corrective actions as determined to be necessary based on that analysis.

Management's Response

[No further comment.]

Auditors' Conclusion

Our audit conclusion remains unchanged. We encourage ETA to follow up with its request to OMB.

3. Unemployment Trust Fund

Status of Prior Year Findings and Recommendations

Unemployment Insurance Benefit Overpayments

In the FY 2001 audit (OIG Report No. 22-02-004-13-001), the OIG reported certain deficiencies in the internal controls over Unemployment Insurance benefit payments. The Unemployment Insurance (UI) overpayment data collected by the Benefit Accuracy Measurement (BAM) unit reflected little improvement in the UI overpayment rates over the past several years. In fact, the overpayment rate has remained relatively flat since 1989 at about 8.5 percent. The report also noted that the BAM data reflect significantly higher overpayments than those established and reported by the states' Benefit Payment Control (BPC) system, $2.3 billion versus $669 million, respectively. According to management, a significant portion of the $2.3 billion in overpayments represents instances which are either non-recoverable or are not detectable given current operating procedures. The OIG made four recommendations, of which three were closed. The open recommendation follows:

We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that the Office of Workforce Security (OWS) management:

- ***Develop a written plan to utilize the data produced by the BAM unit as the impetus for improving internal controls over the benefit payment process. Specifically, the plan should address:***

    - ***procedures to analyze overpayment rates for purposes of identifying statistically valid improvement, or lack thereof, in overpayment rates at the national and state levels;***

In FY 2002, in response to this finding, management provided the OIG with a detailed corrective action plan and timeline, as well as descriptions of certain actions already put into place. The corrective action plan described planned changes to the methods in which BAM and BPC UI overpayments will be measured and compared, as well as proposed Government Performance and Results Act (GPRA) measures and goals.

In FY 2003, management prepared detailed analyses of 2002 UI overpayment data and provided us with additional information as to the GPRA goal implemented to measure the states' detection of UI benefit overpayments.

While management has made efforts to improve detection of overpayments, the actual UI benefit payment rate for 2002 did not yet reflect the effects of such actions. The UI benefit overpayment rates for 2002 and 2001 were 9.1 percent and 8.2 percent, respectively. For these reasons, this recommendation remains **resolved and open**. We will reevaluate this recommendation in our FY 2004 audit after management's plan, inclusive of the GPRA goal, has been in effect over one full year. At that time, we will determine if the GPRA goal and other actions taken by management have resulted in a statistically valid reduction in the rate of UI overpayments.

Management's Response

"ETA believes that the actions it has taken as outlined in its action plan/work plan will result in a significant reduction in the detectable, recoverable overpayment rate. However, we note that

ETA's initiatives to address overpayments must be implemented by states, and it may be more than a year before data reflecting the impact of those initiatives are available.

For example, ETA provided funding in July 2003 for implementation or improvement of state systems to cross match UI payment data with state directories of new hires, the Social Security Administration, and other data bases, e.g., state departments of motor vehicles. Before there are measurable results of these efforts, the computer data matching programs must be written, tested, etc.; investigations initiated; and overpayments established. We expect the results of these efforts initially to be an improvement in the rate of overpayments detected; after these systems have been in place for sometime, we would expect them to have a deterrent effect, reducing the overall estimated overpayment rate. We expect to see improved detection results from use of new hire directories in 2004 data and perhaps some impact from the SSA crossmatch in 2004 although it is not likely to be implemented by states until the latter half of 2004.

It is not possible for states to prevent many overpayments because they have no way to know at the time the payment is made that the individual is ineligible (for example, the individual has returned to work). For this reason ETA has focused its efforts and measures on quick detection of overpayments rather than setting an overpayment reduction goal."

Auditors' Conclusion

As indicated in our draft report, the data available for FY 2003 does not lead to a conclusion that management's corrective actions implemented in response to the original audit finding have impacted the UI benefit overpayment rate or the rate of overpayment detection. We concur with management that their corrective actions may need additional time to significantly impact the overpayment and detection rates. This recommendation remains **resolved and open** pending an assessment of the FY 2004 UI overpayment data.

4. Federal Employees Compensation Act (FECA)

<u>Current Year Finding and Recommendation</u>

a. Lack of Current Medical Evidence

In order to determine continuing eligibility for compensation payments, the FECA procedure manual Chapter 2-812(6-7), requires ESA's Office of Workers' Compensation Programs (OWCP) Claims Examiners (CEs) to obtain and review medical evidence on a periodic basis depending on the status of the claimant as follows:

Status Code	Description	Frequency
PR	Cases in which total temporary disability payments are being paid	Yearly
PW	Cases receiving payments for loss of wage-earning capacity	Every two years
PN	Cases in which no wage earning capacity exists	Every three years

FECA Procedure Manual 2-812(8) contains the procedures for obtaining and reviewing medical reports. If a medical report is not received within the specified time (30-60 days is considered reasonable), or the report does not contain the requested information, the CE should direct the claimant to undergo examination by the attending physician or a second opinion specialist, as appropriate. The OWCP should make an appointment for the examination. The notification to the claimant should include the warning that under 5 U.S.C. 8123(d) benefits may be suspended for failure to report for the examination. Suspension may be invoked only in connection with a specific appointment.

Where injury-related disability has ceased, the CE is to notify the claimant of the proposed termination of benefits. The OWCP has the burden of proof to justify the termination of benefits by positive and specific evidence that injury-related disability has ceased. The FECA procedures state that the inadequacy or absence of a report in support of continuing benefits is not sufficient to support termination, and benefits should not be suspended for that reason.

During the FY 2003 audit, from a sample of five out of 12 District offices, we tested 146 case files where medical evidence was required to be obtained in the current year. A statistical sample of 96 cases and an additional judgmental sample of 50 cases were selected for testing. Of these 146 cases, 27 cases (18 percent) did not have current medical evidence in the case file in accordance with program policy. In 25 of these 27 cases, it appeared the claimant did not seek medical treatment during the current fiscal year, as evidenced by the fact that no medical bills had been processed by the Bill Payment System (BPS).

To determine if these cases related to a particular segment of the population only (e.g., older cases involving permanent disability), we further analyzed the 27 cases by reviewing information recorded in the Case Management File, the Automated Compensation Payment System, and the BPS. We found these cases included all three status code types and appeared to represent a cross-section of case files rather than a particular segment of the population. The age of the claimants ranged from 41 to 84 years old, and the dates of injury spanned from 1960 through the 1990s. The lack of current medical evidence appeared to be due to procedural failure by OWCP rather than the claimants being non-responsive.

The lack of current medical evidence in the case files occurred because OWCP does not have effective controls to ensure CEs request and receive current medical evidence timely. The current process relies upon the ad-hoc tracking systems utilized by individual CEs in each of the District offices to ensure compliance.

Based on these results, we concluded that the primary control ensuring that claimants submit medical evidence to support continuing eligibility for compensation and medical benefits is not effective. Because OWCP did not follow its procedures, it could not take steps to suspend or terminate benefits if the medical evidence did not support continuing eligibility. Without adequate procedures for obtaining and reviewing current medical evidence, the risk of improper payments increases.

Recommendation

We recommend that the Chief Financial Officer ensure that the Assistant Secretary for the Employment Standards Administration develops and implements effective controls (e.g., automated procedures) that will ensure Claims Examiners obtain and review current medical evidence as required by FECA program policy.

Management's Response

"As noted by the OIG, this issue relates to procedures that OWCP has in place to ensure that current medical evidence is present in long term disability files. Of the errors identified by OIG, 60% occurred in one of the five offices audited. The management of that particular office was notified of the OIG's findings and training was mandated by OWCP. The program is implementing a new integrated computer system in January 2004. The system has an automated tracking mechanism to alert the claims staff when a medical evaluation is due. We believe that the directed training and new system will eliminate this finding from future audits."

Auditors' Conclusion

Although management indicated corrective action was initiated at one of the district offices, their response did not address the other district offices that were responsible for 40 percent of the errors. Additionally, we have not been provided any details on the new integrated computer system, and, accordingly, are unable to evaluate whether or not this system will effectively resolve this finding.

Therefore, this recommendation is **unresolved**, pending receipt and review of a detailed corrective action plan, which includes information regarding the new integrated computer system and which addresses the remaining district offices.

Management Advisory Comments

1. Job Corps Program

Current Year Finding and Recommendation

Job Corps Data Center Has Approximately $11 Million in Unclaimed Student Checks

Each year, a significant number of Job Corps student payroll checks are returned to the Job Corps Data Center (JCDC) unpaid. A total of 109,251 unpaid checks were returned to the JCDC from December 1995 through November 2002. These checks amounted to $8,651,815. During the same period, an additional 30,722 unclaimed checks (in the amount of $2,314,083) were not returned to the JCDC but were never cashed by the students. In total, $10,965,899 is owed to Job Corps students for readjustment and/or transition allowances earned during the course of their participation in Job Corps. The Job Corps Policy and Requirement Handbook (PRH) requires that Centers and career transition services providers "assure efficient, effective, and coordinated delivery of career transition services to graduates and former enrollees including the distributing and safeguarding of student payments."

When Job Corps students leave the program, they are entitled to a transition allowance based on their achievements. If a student obtains a General Educational Development degree (GED), he or she is entitled to $250. Vocational Completers receive $750. Students who earn a GED and are Vocational Completers are entitled to $1,200. Non-Completers receive only final pay. Students entitled to a transition allowance receive a portion of these checks when they leave the Job Corps center , and, in certain cases, the remainder is provided by a Career Transition Service (CTS) provider.

However, for various reasons many of these checks are not being claimed or, if claimed, not cashed by the students. Some of these students may not want any further contact with the Job Corps program. In other cases, the students may not have provided accurate contact information.

The Office of Job Corps acknowledges that additional steps should be taken to address the issue of unclaimed checks and recently developed a plan for immediate action as well as a plan for long-term measures.

Recommendation

We recommend that the Chief Financial Officer ensure that the Office of Job Corps identify the causes for checks being returned and address these causes by strengthening current procedures to ensure that students receive their final checks, and that the number of unclaimed checks is reduced.

Management's Response

"As of 2/29/04, the Unclaimed Pay has been reduced to $9.7 million. Job Corps has taken several actions to continue reducing this amount, which includes adding an application function which CTS providers can query students currently on their case load for outstanding check information, performing reviews of students with outstanding checks, and follow-up phone calls. Job Corps continues to address this issue by mailing notifications to students with outstanding checks and sending bulk case-notes to CTS providers for follow-up."

Auditors' Conclusion

This recommendation is **unresolved**. Job Corps' February 2004 Statement of Position supports the reduction of Unclaimed Pay from nearly $11 Million to $9.7 Million. However, to resolve the recommendation, a corrective action plan with timeframes needs to be provided that includes the actions planned to identify the causes for the checks being returned and relates actions taken to the causes. We will follow up on the actions Job Corps has already taken to determine the effect on reducing the amount of returned checks during our FY 2004 audit.

2. Accounting for Grants

<u>Status of Prior Year Finding and Recommendation</u>

a. ETA Grant Closeout.

In the FY 1996 audit report (OIG Report No. 12-97-005-13-001), the OIG reported that ETA did not have an effective system to track grants and contracts in the closeout process or to identify the grants that should be closed, and the closeout process was very untimely. In FY 2000, the responsibility for closing ETA grants was moved to the Office of Grants and Contracts Management. Since that time the Closeout Unit has improved the grant closeout process and reduced the inventory of grants in closeout. As of the FY 2002 audit report, the recommendation was resolved and open, pending improvements in the length of time for processing grants and contracts through closeout.

The FY 1996 audit report included the following recommendation:

- ***We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that procedures are established to ensure that the regulatory time requirement for submitting all financial, performance, and other required documents within 90 days after the end of the grant is met by the grantee or contractor and that grants are closed out in a timely manner, i.e., 1 year or less.***

The Closeout Unit continues to initiate efforts to improve the closeout process. A grant closeout module is currently being developed by ETA's Office of Technology, which will provide ETA with improved methods for initiating and managing the closeout process. This module is scheduled for completion in early FY 2004.

This recommendation remains **resolved and open** pending the implementation of improved procedures for processing grant closeout on a timely basis, as evidenced by a reduction in the length of time for processing grants and contracts through the closeout process.

Management's Response

"The Closeout Unit has implemented four new procedures to reduce the number of days to close grants/contracts. These procedures include:

1) A follow-up phone call to the grantee/contractors to ensure they received our closeout package.

2) 30 days before the closeout package is due, we call again to remind the grantee/contractor to submit the package.
3) If the grantee/contractor does not return a closeout package as specified, we send a "No Document" letter notifying them that closeout documents are due within the timeframe indicated.
4) If the grantee/contractor returns incomplete documents, needs to submit revised documents, or owes ETA a refund, we send a "Notice" letter notifying them what documents they need to submit within the timeframe indicated.

The closeout unit has also established an informal e-mail communication system with the regional offices to improve the timeliness of closing regional grants & contracts. Our informal communication system will remain in affect until we can rely on the grant/contracting electronic systems to notify our unit.

Contractors have six months after the end of their fiscal year to submit a final indirect cost proposal to their cognizant agency. Federal agencies may take six months to three years to approve these rates. This time lag is beyond ETA's control, but significantly lengthens the time required to finally close a contract (ETA's closeout policy does not require final rates for grants). Contracts awaiting final indirect cost rates should not be included in the calculation of how long it takes ETA to close an award."

Auditors' Conclusion

We concur with the actions taken by management and will evaluate the revised procedures during the FY 2004 audit. This recommendation remains **resolved and open**. Closure is dependent upon the results of our evaluation and evidence that the revised procedures have resulted in a timely closing process for ETA's grants and contracts.

b. Tracking Grant Closeout

In the FY 2001 audit report (OIG Report No. 22-01-006-13-001), the OIG reported that DOL=s granting agencies need a means by which they can track, in DOLAR$, whether or not a grant has been closed. Currently, it is difficult for granting agencies to identify grants and contracts that have not yet been submitted for closure. In addition, there are no controls to prevent transactions from being posted in DOLAR$ after the grant has been closed and received final certification, and grants can be archived from DOLAR$ without consideration of whether or not the grant has been closed. There are thousands of grant and contract documents recorded in DOLAR$, and the granting agencies need an efficient means of identifying open versus closed grants.

The FY 2001 report included the following recommendation:

- ***We recommend that the Chief Financial Officer work with the granting agencies to develop a method, using DOLAR$, that will provide the agencies with the necessary information for closed versus open grants, would restrict access to closed grants, and would ensure that grants are not archived from DOLAR$ prior to grant closure***.

No actions have been taken by management regarding this recommendation; however, the OCFO has indicated that this recommendation will be considered in the functional requirements analysis for the new accounting system that will eventually replace DOLAR$. The new system is in the planning phase and will not be operational for several years. This recommendation remains

unresolved until specific plans for corrective actions are developed which provide interim resolution prior to the replacement of DOLAR$.

Management's Response

"Management has reviewed the recommendations and has determined that the modifications requested would not be cost effective given the fact that the system is scheduled for replacement starting in FY 2004. We will incorporate these recommendations into the functional requirements analysis for the new system."

Auditors' Conclusion

To the extent it is available, we will evaluate relative portions of the functional analysis referred to by management during the FY 2004 audit. However, this recommendation remains **unresolved** pending implementation of procedures for interim resolution.

3. Unemployment Trust Fund

Status of Prior Year Finding and Recommendation

a. Understated Unemployment Benefit Payments

In the FY 2000 audit report (OIG Report No. 22-01-006-13-001), the OIG reported certain deficiencies in the reconciliation process for unemployment benefits reported by the states and those reflected on Treasury statements. The OIG found that ETA's reconciliation process does not cover state unemployment benefits, and the OCFO's reconciliations identified significant misstatements in advances to states and state unemployment benefit expenses. Furthermore, states reported drawdowns net of the Federal income taxes paid on their behalf by Treasury and reported benefit payments net of Federal income taxes withheld from claimant payments on the state benefit account shown on ETA form 2112. The net benefit payments were recorded in the Unemployment Insurance Data Base (UIDB) and used to reduce gross state drawdowns recorded in DOLAR$.

The OIG made four recommendations of which two have been closed. The recommendations still open follow:

We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that:

- ***Reconciliations using FMRS and Treasury data are performed timely and include comparisons of drawdowns for State benefits in addition to drawdowns for Federal benefits.***

- ***ETA monitors the reconciliation process on a quarterly basis and provides the OCFO status reports on the results of the reconciliations.***

In FY 2003, ETA received OMB approval to revise the ETA form 2112 to capture all current benefit information. The new form will provide ETA with complete information that is necessary for an accurate reconciliation process. ETA is working with the states to reconcile their UI balances and record the correct balances on the new form 2112. However, as of FY 2003 not all states have completed the necessary reconciliations.

These recommendations remain **resolved and open**. Closure is dependent upon further progress of the reconciliation and monitoring process and substantial correction of the ETA 2112s.

Management's Response

"As far as the underreporting of benefits is concerned, ETA has sent states revised instructions and provided training on the latest edition of the 2112 resulting in the correction of the problem of underreporting benefits because of improper reporting of federal tax withholding amounts."

Auditors' Conclusion

We concur that recent revisions to the 2112 should improve the accuracy of reported UI data and simplify the reconciliation process. However, we noted in our FY 2003 audit that the states were not yet reporting data in a consistent manner and had not completed the necessary reconciliations. These recommendations remain **resolved and open** pending our review of the progress made in FY 2004.

b. Unemployment Compensation Advisory Council

In the FY 1997 audit (OIG Report No. 12-98-002-13-001), the OIG reported that the Unemployment Compensation Advisory Council (UCAC) required by the Social Security Act has not been reestablished. Section 908 of the Social Security Act makes no provision for delaying the establishment of a new Advisory Council, and the issues for which the Council is responsible are significant to the UI program. The report included the following recommendation:

- ***We recommend that the Assistant Secretary for Employment and Training ensure that the Unemployment Compensation Advisory Council is reestablished as required by Section 908 of the Social Security Act.***

As of FY 2003, a new UCAC has not been established, nor has a timeframe been provided as to when another council would be discussed or established. This recommendation remains **unresolved** pending establishment of a UCAC.

Management's Response

"A legislative proposal developed by the Department and approved by OMB in 2003 to reform the Unemployment Insurance (UI) program included a section that would amend the current law requirement that an Advisory Council on Unemployment Compensation be convened every four years. The legislative proposal would authorize the Secretary of Labor to convene a Council periodically. The Employment and Training Administration anticipates pursuing this change to the Advisory Council statute in connection with comprehensive UI reform legislation."

Auditors' Conclusion

This recommendation is **unresolved** until such time that ETA complies with the requirement to establish a UCAC. The legislative changes referred to by management in their response do not appear to eliminate this requirement, rather, the requirement may change from "every four years" to "periodically." Since this issue has been unresolved for at least 7 years, even if the legislation changes we would not conclude that ETA is in compliance.

4. Procurement

<u>Status of Prior Year Findings and Recommendations</u>

Purchase Card Activity

The Department of Labor's purchase card program is centrally coordinated by OASAM but operated on a decentralized basis at the agency level throughout the various procurement, finance, and program offices. The internal controls over purchase card activity vary from agency to agency, and within each agency, the controls are only effective to the degree the individual cardholders, approving officials, Agency/Organization Program Coordinators (A/OPCs), and procurement and finance offices fulfill their respective duties.

Controls over purchase card activity continue to be a significant governmentwide issue. The GAO and agency Inspectors General have issued reports detailing purchase card fraud, waste, and abuse at various Federal agencies. This issue has been the subject of numerous congressional hearings. In addition, OMB has issued memoranda in FY 2002 instructing agencies to review the adequacy of the internal controls, prepare remedial action plans, and take immediate administrative action against any employees found to have abused purchase cards.

OIG audits conducted for FY 1999 through FY 2002 identified the following weaknesses regarding the Department's purchase card activities:

- purchases made in excess of the $2,500 micro-purchase limit; and
- missing credit card statements and supporting documentation.

The FY 1999 Management Advisory Comments (OIG Report No. 12-00-006-13-001), included the following recommendations:

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

- ***Revise the credit card policies to clarify what documentation agencies must maintain to support credit card purchases.***

- ***Establish procedures for all agencies to follow and identify the consequences of instances of missing cardholder statements or lack of adequate documentation.***

- ***Ensure that cardholders, approving officials, and other financial management and procurement staff are trained in the Department's credit card use procedures and in their respective responsibilities.***

Our FY 2003 audit revealed that corrective actions were developed and were in the process of being implemented. Full implementation is expected in FY 2004. As a result, these three recommendations are **resolved and open**, pending full implementation of the corrective actions, and on evidence that reflects the actions taken have substantially resolved the issues addressed in this finding.

Management's Response

"a) OASAM revised its purchase card policies to specify the documentation agencies must maintain to support purchase card transactions. The revised Purchase Card Handbook, issued on March 11, 2004, specifies the documentation requirements of purchase card transactions. Pages 10-11 of the Handbook, provides program participants with guidance to clarify what documentation must be maintained as support for purchases.

b) OASAM established procedures for all agencies to follow and identified the consequences of instances of missing cardholder statements or lack of adequate documentation. In a memorandum, dated August 6, 2002, the DOL Procurement Executive identified the requirements for supporting documentation and referred program participants to the aforementioned Handbook for specific guidance. Furthermore, in his memorandum, the Procurement Executive provided program participants with an attachment to be used when the existing documentation is deemed inadequate or missing. In addition, on June 13, 2003, DOL's Purchase Card Program Manager issued a memorandum identifying the consequences for instances of missing cardholder statements or lack of adequate documentation.

c) OASAM established procedures to ensure that cardholders, approving officials, and other financial management and procurement staff are trained in the Department's purchase card procedures and in their respective responsibilities. Through the revised handbook, issued on March 11, 2004, OASAM instituted mandatory training requirements for all program participants. All Program participants must successfully complete the GSA on-line Purchase Card course or equivalent.

Based on the actions taken, OASAM will be submitting a request to the Office of Inspector General requesting that these findings be closed. We will include copies of the aforementioned guidance, policies and procedures."

Auditors' Conclusion

We concur with the actions taken by management, and will evaluate the impact of revised policies and procedures during the FY 2004 audit. This recommendation remains **resolved and open** pending evidence that reflects the actions taken have substantially resolved the issues addressed in this finding.

5. Black Lung Disability Trust Fund

<u>Status of Prior Year Findings and Recommendations</u>

Inaccurate Responsible Mine Operator Accounts Receivable Balances

In the FY 1999 Management Advisory Comments (OIG Report No. 12-00-006-16-001), the OIG included recommendations concerning Responsible Mine Operator (RMO) Accounts Receivable Balances sent to the Solicitor's Office. These accounts often remain at the Solicitor's Office for extended periods of time but are not updated as appropriate while there.

The following recommendation was made to the Division of Coal Mine Workers' Compensation (DCMWC):

- ***DCMWC should update each account receivable no less frequently than once a year for disability benefits and medical bills paid since the account was last updated.***

During our audit testing for FY 2003, we noted that only 8 of 15 accounts had correct balances. The remaining seven accounts were not updated with benefits and or medical bills paid, or were updated with unsupported balances. Management is continuing to create additional monitoring reports to better assist in the updating process. Therefore, this recommendation remains **resolved and open**. The accuracy of the RMO Accounts Receivable balances will be reviewed during the FY 2004 audit. Closure is dependent on evidence that indicates the accounts receivable balances are updated and accurate.

Management's Response

"OWCP is committed to updating the accounts once a year. Auditors stated a preference for the updates to be done toward the end of the fiscal year. OWCP will complete an update in the fourth quarter of 2004."

Auditors' Conclusion

This recommendation remains **resolved and open**. We will evaluate the accuracy of accounts receivable balances during the FY 2004 audit.

6. Federal Employees Compensation Act (FECA)

<u>Current Year Findings and Recommendations</u>

a. Lack of Social Security Wage Authorizations

The FECA Procedure Manual, Chapter 2-812(5) requires the Office of Workers' Compensation Programs to mail each claimant annually a Form CA-1032 *Report of Earnings and Dependents* to verify the status of dependents and any and all earnings of the claimants during the year. The information received is reviewed by the Claims Examiner (CE) and the claimant's compensation rate or amount is adjusted accordingly. The CE may also obtain independent confirmation of the earnings information from the Social Security Administration (SSA) if OWCP suspects outside employment or earnings.

The FECA Procedure Manual, Chapter 2-812(9)(b)(1) and FECA Bulletin 01-04 requires Form CA-935 (a cover letter) along with Form SSA-581 *Authorization to Obtain Earnings Data From the Social Security Administration* be released to the claimant to obtain authorization to request SSA wage information, on an annual basis. A second request is to be sent to the claimant within 30 days if the authorization form is not received. If the second request is not received within 30 days, the case must be referred to the OIG for investigation.

During the FY 2003 audit, we tested 74 compensation cases that required a Form SSA-581 be sent to the claimant (based on the date of the latest form and whether the claimant had been on the periodic roll longer than one year). Of the 74 cases, 21 cases (28 percent) did not have a current SSA-581 form in the case file as required by FECA policy. Seventeen of the 21 were never sent to the claimant. Of the four that were sent, one was returned unsigned, and three were never returned. In addition, of the three not returned, second requests were not issued nor were the three cases referred to the OIG.

The lack of current SSA authorization forms occurred because OWCP does not have automated procedures to ensure the timely request and receipt of this required claimant information. Therefore, the system relies upon the ad-hoc tracking systems utilized by the individual CEs in each of the District offices.

Although submission of a Form SSA-581 annually is not a requirement for continuing eligibility, it is a strong additional control to enable independent verification of earnings. Without the Form SSA-581 authorizations, OWCP cannot obtain independent SSA verification to support continuing eligibility for compensation payments when conditions warrant.

Recommendation

We recommend that the Chief Financial Officer and the Assistant Secretary for Employment Standards develop an adequate system to ensure that Claims Examiners obtain and review SSA-581 forms as required by FECA program policy.

Management's Response

"As noted by the OIG, this issue relates to procedures that OWCP has in place to enable verification of earnings if verification is warranted. However, our managers have been reminded that compliance with this policy is needed. It is expected that once the new integrated computer system is implemented in 2004, this problem will be mitigated. The system has an automated tracking mechanism to alert the claims staff to send the form and to follow-up if it has not been returned. We trust that the implementation of the new system will address this issue."

Auditors' Conclusion

Management indicates the new system will address this weakness, but this system has not yet been implemented. Management has not provided a detailed corrective action plan that specifically identifies how this recommendation will be addressed. In addition, management has not indicated how this weakness will be addressed until the system is implemented. Therefore, this recommendation is **unresolved**, pending receipt and review of a detailed corrective action plan with timeframes for completion.

b. Medical Bill Sampling

Previous OIG reports cited numerous errors in medical bill processing. These errors were due to the inaccurate keying of bills or mistakes in the bill resolution process. In response to these findings, OWCP issued FECA Bulletin No. 98-05 in 1998. This bulletin requires a minimum of 42 individual bills and 1 percent of completed bill batches be sampled each month for review. The review must be performed by a supervisory-level employee who is not involved in bill pay resolution. It also requires quarterly reporting to the FECA National Office.

During the FY 2003 audit, we noted that in the Philadelphia, Jacksonville, and San Francisco District offices, monthly medical bill sampling was not performed as required. The San Francisco District office indicated it has been unable to obtain the information needed to download the required data from the National Office due to the conversion to Microsoft Windows XP. The Jacksonville District Office cited workload and other OWCP changes, and the Philadelphia District Office did not provide an explanation for the lack of compliance.

The independent review of medical bills is an important internal control to ensure the accuracy, quality, and security of the bill processing operation. Our FY 2003 audit testing identified 5 errors related to medical bill processing of the 238 medicals bills we tested (2 percent). These errors resulted in a net overpayment of $61,653. If the medical bill reviews are not performed, it increases the risk that management will fail to identify and correct errors and deficiencies in the medical bill processing on a timely basis. The risk that improper payments may be made is also increased.

Additionally, the Improper Payments Act of 2002 (P.L. 107-300) and the related OMB implementation guidance (OMB Memo 03-13) requires that, effective FY 2004, because the FECA program is susceptible to significant overpayments, a statistically valid sample of payments must be tested to determine the extent of overpayments.

Recommendation

We recommend that the Chief Financial Officer and the Assistant Secretary for Employment Standards ensure that medical bills are reviewed on a timely basis at all District offices in accordance with FECA Bulletin No. 98-05 and that existing guidance is updated to reflect implementation of the Improper Payments Act in FY 2004.

Management's Response

"In September of 2003, OWCP began implementation of contractor provided bill processing. With the implementation, OWCP began new methods of reviewing bill processing results. At this time, we have a regional group looking at whether bills are medically related and appropriate to the accepted condition. The system itself has complex sets of edits to ensure that bills are properly paid. The new system has more sophisticated checks for duplicate payments, and OWCP staff is closely reviewing bills processed. Over the next year, OWCP will codify new bill review processes."

Auditors' Conclusion

Management has indicated it will develop new bill review procedures now that the contractor provided bill processing has been implemented. This recommendation is **unresolved**, pending receipt and review of a corrective action plan detailing the new bill review procedures, with specific timeframes for completion.

7. Performance Measures

Status of Prior Year Findings and Recommendations

The following recommendations were issued in an FY 1992 OIG audit report, (OIG Report No. 03-93-034-03-315) directly to the appropriate Assistant Secretary. We request that the CFO work with the Assistant Secretary to address these recommendations.

Unemployment Trust Fund

- ***Unemployment Insurance Service (UIS) should review validation methods for all other data elements contained on the Unemployment Insurance Required Reports.***

During FY 2003, the Unemployment Insurance Data Validation (UIDV) process was implemented. Full implementation of the UIDV program is pending the receipt of actual validation reports from all states. Therefore, this recommendation remains **resolved and open**. We will perform audit follow-up work after the UIDV program is fully implemented to evaluate whether this recommendation can be closed.

Management's Response

"No change in response from FY 2002: OWS is implementing a system that will validate about 1200 of the 2400 elements states must now report: The most important data elements will be validated; between UIDV and BAM reviews, we have systems to validate three of the four UI GPRA indicators (the fourth indicator cannot be validated because it is not yet implemented). We will await the results of OIG's planned follow-up audit designed to close this finding."

Auditors' Conclusion

Our audit conclusion remains unchanged.

- ***UIS should increase the period being validated from one month for quantity and one quarter for quality to an entire year.***

During our FY 2003 follow-up to prior years' audit findings and recommendations, the Office of Workforce Security (OWS) disclosed that once UIDV is fully implemented, it will determine whether there are substantial benefits to conduct the validation on a full year's data. As of December 2, 2003, less than half the states have submitted a validation report. These states are validating one quarter of data. Therefore, until OWS develops a corrective action plan to address increasing the validation period beyond one quarter, this recommendation is **unresolved**.

Management's Response

"No change in response from FY 2002: Because most reports are fully automated, a test and correction of report-writing code over a short period of time is as good as over a longer period, ETA does not believe there is value in lengthening the validation period."

Auditors' Conclusion

This recommendation remains **unresolved**. As mandated by the CFO Act, agencies are required to provide reliable and accurate performance data to Congress and OMB. We believe that extending the validation period will decrease the potential for material misstatement of performance data in the DOL Report on Performance and Accountability.

8. Property and Equipment

<u>Current Year Findings and Recommendations</u>

Construction in Progress (CIP) Invoices Were Not Always Accompanied By a Signed Transmittal Letter

During FY 2003, we tested 43 randomly selected CIP invoices recorded in DOLAR$. This review disclosed that six paid invoices (14 percent) were not accompanied by a transmittal letter signed by an approving Job Corps official. This occurred because there were not written procedures to ensure that the CIP invoices were accompanied by a signed transmittal letter from the approving Job Corps official. As a result, there was no documentation to support that the appropriate Job Corps officials reviewed and recommended the invoice for payment.

The financial management requirements contained in Title 31 U.S.C. 3325, Vouchers, state in part:

> (a) A disbursing official in the executive branch of the United States Government shall—
>
> (1) disburse money only as provided by a voucher certified by—
>
> (A) the head of the executive agency concerned; or an officer or employee of the executive agency having written authorization from the head of the agency to certify vouchers; . . .

Furthermore, Treasury Financial Manual, Part 4, Chapter 2000, Section 2020.30, Preaudit of Vouchers, states in part:

> Effective control over disbursements requires the preaudit and approval of vouchers before they are certified for payment. The principle objectives of the preaudit of a voucher are to determine whether:
>
> The required administrative authorizations for the procurement and approvals for the payment were obtained. . . .

Job Corps' DBFS is responsible for approving CIP invoices. To assist in determining whether the work was performed and the invoice should be paid, DBFS uses the services of an A&E contractor. The A&E contractor will certify on the CIP invoices that the work was performed and payment should be made. DBFS will prepare and sign a transmittal forwarding the CIP invoice to ETA's OFAS for payment.

While there was evidence the six CIP invoices were reviewed and recommended for payment by the Job Corps' A&E contractor, statute and procedures require that Job Corps DBFS officials provide a signed transmittal letter when forwarding the invoices to OFAS for payment. The lack of an approving Job Corps signature certifying the review and approval of CIP invoices prior to payment represents a departure from a significant internal control procedure, as well as non-compliance with Title 31 U.S.C. 3325.

Recommendation

We recommend that the Chief Financial Officer and ETA ensure that the Office of Job Corps and OFAS develop and implement written procedures that ensure all CIP invoices are accompanied by a transmittal letter signed by the appropriate DBFS official before being paid.

Management's Response

"Formal instructions were issued to the OFAS, DFSS Accounts Payable Team, by e-mail dated 9/23/03, from the Operations Unit Supervisor. These instructions specifically stated that staff must verify that all memoranda are signed by an authorizing official before invoices are scheduled for payment. In addition, Certifying Officers are instructed not to certify payments that do not bear the signature or initials of the authorizing official.

We furthermore incorporated this control in our draft national office policy and procedure manual, under Accounts Payable."

Auditors' Conclusion

We concur with management's response and consider the recommendation **resolved and open**, pending issuance of the revised Accounts Payable section of the final national office policy and procedures manual. The recommendation will be closed based upon evidence collected in the FY 2004 audit that indicates invoices are being approved in accordance with management's policy.