

U.S. Department of Labor

Office of Inspector General—Office of Audit

**EMPLOYMENT AND
TRAINING ADMINISTRATION**



**ST. CHARLES COUNTY'S
DEPARTMENT OF WORKFORCE DEVELOPMENT
CLAIM TO MISSOURI IS UNSUPPORTED**

**Date Issued: September 28, 2006
Report Number: 05-06-001-03-390**

**U.S. Department of Labor
Office of Inspector General
Office of Audit**

BRIEFLY...

Highlights of Report Number: 05-06-001-03-390, to the Assistant Secretary for Employment and Training.

WHY READ THE REPORT

In 2004, we received two complaints with numerous allegations which, in general, alleged that St. Charles County, Missouri, Department of Workforce Development (DWD) overcharged Department of Labor (DOL) grants.

St. Charles County is a grant subrecipient of workforce development funds under the Workforce Investment Act (WIA) and Welfare-to-Work (WtW) programs from the Missouri Division of Workforce Development (Missouri). DWD received approximately \$5.4 million in WIA and WtW funds, as well as funding for other Federal programs, during our audit period July 1, 2000 through July 31, 2004.

WHY OIG DID THE AUDIT

We audited the DOL grants at DWD to determine if the allegations could be substantiated.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response, go to:

<http://www.oig.dol.gov/public/reports/oa/2006/05-06-001-03-390.pdf>

September 2006

St. Charles County's Department of Workforce Development Claim to Missouri Is Unsupported

WHAT OIG FOUND

The complainants made several allegations which, in general, alleged that DWD overcharged DOL grants. We cannot conclude on the merits of these allegations because of a lack of critical documentation showing how costs actually were allocated to the DOL grants. However, since DWD and DOF could not provide critical records to account for DOL grant funds, they cannot support their claim for reimbursement to Missouri. Therefore, we are questioning all WIA and WtW grant costs, totaling \$4,110,061 for the period July 1, 2000 through July 31, 2004.

WHAT OIG RECOMMENDED

We recommend that the Assistant Secretary for Employment and Training:

- In lieu of DWD's missing crosswalk spreadsheets used to allocate costs to DOL programs, direct Missouri to submit alternative documentation to support the claimed cost allocations of \$4,110,061 reimbursed to DWD for the period July 1, 2000 through July 31, 2004. Based on ETA's determination, recover unallowable or unsupported costs.
- Direct Missouri to ensure that:
 - DWD allocates costs to DOL programs in accordance with the relative benefits received.
 - DWD and DOF maintain adequate records to account for all expenditures of DOL program funds.

In their response to the draft report, Missouri and County officials stated they intend to submit alternative documentation as evidence of the clients served by these programs and the expenditures made on behalf of these programs to assure DOL that these grants were accounted for, and used to serve clients for which the grants were intended.

The response did not address Missouri's actions to resolve the other two recommendations.

All recommendations will be resolved as part of ETA's audit resolution process.

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Executive Summary

In February and June 2004, we received two separate complaints with numerous allegations which, in general, alleged that the St. Charles County, Missouri, Department of Workforce Development (DWD) overcharged Department of Labor (DOL) grants. We audited the DOL grants at DWD to determine if the allegations could be substantiated.

St. Charles County is a grant subrecipient of workforce development funds under the Workforce Investment Act (WIA) and Welfare-to-Work (WtW) programs from the Missouri Division of Workforce Development (Missouri). The County Executive delegated responsibility to administer these grants to DWD, while the County Municipal Code assigns the County Department of Finance (DOF) the responsibility for maintaining the financial records of the entire County, including DWD. DWD received approximately \$5.4 million in WIA and WtW funds, as well as funding for other Federal programs, during our audit period July 1, 2000 through July 31, 2004.

Results

The complainants made several allegations which, in general, alleged that DWD overcharged DOL grants. We cannot conclude on the merits of these allegations because of a lack of critical documentation showing how costs actually were allocated to the DOL grants. However, since DWD and DOF could not provide critical records to account for DOL grant funds, they cannot support their claim for reimbursement to Missouri. Therefore, we are questioning all WIA and WtW grant costs, totaling \$4,110,061 for the period July 1, 2000 through July 31, 2004.

We determined that two of the allegations were without merit. The public accounting firm that performed the 2001, 2002, and 2003 single audits did not audit only revenue, as alleged. DWD did not reimburse DOF for workers' compensation premiums through payroll withholding, as alleged.

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

- In lieu of DWD's missing crosswalk spreadsheets used to allocate costs to DOL programs, direct Missouri to submit alternative documentation to support the claimed cost allocations of \$4,110,061 reimbursed to DWD for the period July 1, 2000 through July 31, 2004. Based on ETA's determination, recover unallowable or unsupported costs.

- Direct Missouri to ensure that:
 - DWD allocates costs to DOL programs in accordance with the relative benefits received.
 - DWD and DOF maintain adequate records to account for all expenditures of DOL program funds.

Grantee Response

The DWD Director and the County are deeply concerned about the disappearance of records that existed during earlier monitoring reviews and the Single Audits. The County has crosswalk spreadsheets from July 2003 forward and alternative documentation to support the claimed cost allocations and direct costs for the period July 1, 2000 through July 31, 2004. Missouri intends to submit this alternative documentation as evidence of the clients served by these programs and the expenditures made on behalf of these programs to assure DOL that these grants were accounted for, and used to serve clients for which the grants were intended.

The response did not address Missouri's actions to ensure that DWD allocates costs to DOL programs in accordance with the relative benefits received, or Missouri's actions to ensure that DWD and DOF maintain adequate records to account for all expenditures of DOL program funds.

OIG Conclusion

The response to our draft report did not provide any additional information that caused us to revise our findings and recommendations.

All the recommendations will be resolved as part of ETA's audit resolution process. We attached the Missouri and County response in its entirety to this report as Appendix D.

U.S. Department of Labor

Office of Inspector General
Washington, DC 20210



Assistant Inspector General's Report

Emily Stover DeRocco
Assistant Secretary
for Employment and Training

In February and June 2004, we received two separate complaints with numerous allegations which, in general, alleged that the St. Charles County, Missouri, Department of Workforce Development (DWD) overcharged Department of Labor (DOL) grants. We audited the DOL grants at DWD to determine if the allegations were substantiated.

St. Charles County is a grant subrecipient of workforce development funds under the Workforce Investment Act (WIA) and Welfare-to-Work (WtW) programs from the Missouri Division of Workforce Development (Missouri). The County Executive delegated responsibility to administer these grants to DWD, while the County Municipal Code assigns the County Department of Finance (DOF) the responsibility for maintaining the financial records of the entire County, including DWD. DWD received approximately \$5.4 million in WIA and WtW funds, as well as funding for other Federal programs, during our audit period July 1, 2000 through July 31, 2004.

The complainants made several allegations which, in general, alleged that DWD overcharged DOL grants. We cannot conclude on the merits of these allegations because of a lack of critical documentation showing how costs actually were allocated to the DOL grants. However, since DWD and DOF could not provide critical records to account for DOL grant funds, they cannot support their claim for reimbursement to Missouri. Therefore, we are questioning all WIA and WtW grant costs, totaling \$4,110,061 for the period July 1, 2000 through July 31, 2004.

We determined that two of the allegations were without merit.

Objective – Were the Allegations Substantiated?

Results

A complainant alleged that the public accounting firm that performed the 2001, 2002, and 2003 single audits for the County audited DWD revenue and not the expenditure accounts. We reviewed the firm's working papers applicable to DWD's audit each fiscal year. The working papers show that because the DOL grants were not a significant County program, the auditors verified DWD's grant proceeds received and a limited number of expenditures charged to the grant activities. We found this allegation to be without merit.

During our audit period, the County was self-insured for workers' compensation. DWD was not liable for any workers' compensation premiums. A complainant alleged that DOF was charging DWD for the cost of workers' compensation premiums. We selected a judgmental sample of 14 payroll registers from July 1, 2000 through June 30, 2004, to determine if the employer's cost for workers' compensation was shown in the payroll register. Since a calculation for workers' compensation appeared, we traced salaries and fringe benefits from the payroll register to the County general ledger. We concluded that DOF was not charging DWD for workers' compensation premiums through payroll withholding because workers' compensation costs were not recorded in the general ledger. DOF representatives explained that the cost of workers' compensation was shown on the payroll registers because DOF was calculating the amount to set aside for these benefits for another non-DOL program. This allegation is without merit.

Finding – DWD and DOF Cannot Support their Reimbursement Claim to Missouri for DOL Grant Funds.

The complainants made several allegations which, in general, alleged that DWD overcharged DOL grants. We cannot conclude on the merits of these allegations because of a lack of critical documentation showing how costs actually were allocated to the DOL grants. Because the DOL grants were not a significant County program, the public accounting firm performing the County single audit tested only a limited number of DWD expenditures in 2001, 2002, and 2003 to meet the requirements of the Single Audit Act. However, since DWD and DOF could not provide critical records to the OIG to account for DOL grant funds, they cannot support their claim for reimbursement to Missouri. Therefore, we are questioning all WIA and WtW grant costs, totaling \$4,110,061 for the period July 1, 2000 through July 31, 2004.

DWD managed several state and Federal programs from different funding streams. It is subject to OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal

Governments, which details principles providing that Federal awards bear their fair share of cost.

OMB Circular A-87, Attachment A, Section C.3.a states:

A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with the relative benefits received.

DWD defined how it would allocate costs that are for the direct benefit of one or more programs in a cost allocation plan. DWD provided us with several undated cost allocation plans, but the methodologies were similar.

The allocation plans stated that payroll costs of the various programs would be allocated based on an employees' semi-monthly timesheet. The timesheet is designed for the employee to record the hours he/she worked on a program, took leave, or attended training. Employee wages and fringe benefits for the month were to be charged to the program based on the total hours charged to the program. Leave and training hours were to be entered into a pooled category and then allocated based on the ratio of hours worked on each program.

The allocation plans further stated that non-personnel costs, such as supplies, rent, utilities, telephone, and leased equipment, would be pooled into one group and allocated to the various programs based on the payroll costs of benefiting programs for the month. Beginning in approximately 2002, space and utility costs were to be allocated based on usage by each program.

Due to a lack of documentation, specifically crosswalk spreadsheets, we were unable to perform our audit testing to determine if DOL grants were overcharged for the period July 2000 through September 2001. According to DWD staff, the payroll cost allocations for the various DWD programs, including the formulas and calculations, were performed on crosswalk spreadsheets. However, DWD was unable to provide these essential audit trail documents. The crosswalk spreadsheets provided the detail support for the monthly amounts on the Declining Balance Reports and the Contract Progress Reports (DWD's claim to Missouri).

DWD staff later informed us that they could not provide the crosswalk spreadsheets through July 31, 2004, our audit cut-off. Further, the Declining Balance Reports were not available after September 2001. Because of a lack of critical documentation showing how costs actually were allocated to DOL grants, DWD and DOF cannot support their reimbursement claim to Missouri for DOL grant funds.

Title 29 CFR Part 97 (Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments) and the Municipal Code

of St. Charles County require that documentation be retained to support the claim. Specifically, 29 CFR 97, Section 97.20 (b) states:

The financial management systems of other (non-State) grantees and subgrantees must meet the following standards:

... (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays, or expenditures, and income.

... (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

29 CFR Part 97, Section 97.42 (b) requires that financial records be retained for 3 years from the date of submission of the last expenditure report of the program year:

Length of retention period. (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section.

Section (c) states that the starting date is the date subgrantee submits its last expenditure report for the period. DWD submitted its last expenditure report on Program Year 2000 grants on its April 30, 2002 Contract Progress Report. Therefore, DWD's records from July 1, 2000, should have been available when we began fieldwork in September 2004.

The Municipal Code of St. Charles County required that DOF maintain documentation of all expenditures for DWD. This should have included supporting documentation, such as the crosswalk spreadsheets, Declining Balance Reports, and Contract Progress Reports sent to Missouri. Specifically, Section 130.055 C states:

The Director of Finance shall keep account of all appropriations and expenditures made by St. Charles County's governing body, departments, divisions, bureau, commissions, boards and officers.

Since the crosswalk spreadsheets were not available, we used other analytical methods to attempt to determine if DOL paid its fair share of DWD's costs. We found several indications (detailed below) that DWD did not properly allocate costs

to DOL programs. However, because of the lack of critical records, we could not determine the extent of the misallocation.

Costs Were Not Based on the Methodology in the Cost Allocation Plans.

We analyzed 8 months of DWD programs' Declining Balance Reports, which were only available for the period July 2000 through September 2001. Our analysis was to determine if non-personnel costs were allocated to the various programs based on payroll costs, as outlined in the cost allocation plans. We found that:

- The percentage of DWD costs allocated to all WIA program grants for rent, utilities, telephone, and leased equipment usually exceeded the percentage allocated for salaries and fringe benefits, as shown below:

Month	Salaries	Rent	Utilities	Telephone	Leased Equipment
July 2000	28%	97%	96%	99%	100%
August 2000	10%	100%	94%	99%	100%
September 2000	45%	38%	60%	98%	48%
December 2000	37%	0%	100%	95%	100%
May 2001	7%	98%	82%	83%	99%
July 2001	53%	92%	72%	99%	78%
August 2001	49%	97%	81%	96%	95%
September 2001	44%	91%	65%	95%	76%

- Non-personnel costs were frequently billed to certain WIA program grants (e.g. adult, youth, and dislocated workers) in months when the program was charged for no salaries or fringe benefits.
- There were discrepancies between Salaries and Fringe Benefits. For example:
 - a. In August 2000, DWD charged \$628 to fringe benefits, but charged no salaries in the WtW 70 percent portion of the program.
 - b. In May 2001, DWD charged \$19,267 to salaries, but charged no fringe benefits in the WtW Demo program.

DWD's allocation of program costs was rarely based on the methodology outlined in DWD's cost allocation plans. Further, costs were not charged to the grants in accordance with the relative benefits received, as required in OMB Circular A-87, Attachment A, Section C.3, cited above.

Employees Submitted Presigned Blank Timesheets.

We found that 12 employees submitted presigned blank timesheets for the first semimonthly payroll for November 2001. We contacted one of these employees who confirmed he/she signed a blank timesheet. During our payroll testing from July 2000 through September 2001, we also identified another presigned blank timesheet. When timesheets are prepared by someone other than the employee, there is no assurance that they reflect the actual activity of the employee.

OMB Circular A-87, Attachment B, Section 11h (5) requires that timesheets reflect an after-the-fact distribution of the actual activity of each employee:

Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee, (b) they must account for the total activity for which each employee is compensated, (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee.

The practice of completing blank timesheets is in violation of OMB Circular A-87 because there is no assurance that DWD's allocation of payroll costs was based on the actual activity of each employee.

There Was No Record of Payment or Allocation for Workers' Compensation Claims.

A memorandum from DOF, dated July 15, 2002, informed DWD that it would be charged for workers' compensation claims for the months of January through April 2002. We were told that while the County was self-insured and paid the claims from the general fund, it was DOF's practice to bill each agency for these claims.

We reviewed DWD's general ledger accounts with a DOF representative and concluded that DWD's general ledger did not contain an insurance account. However, we could not determine if DWD reimbursed DOF from another account and allocated workers' compensation claims to DOL grants because of a lack of documentation.

Summary

The crosswalk spreadsheets provided the detail support for the monthly amounts on the Declining Balance Reports and the Contract Progress Reports (DWD's claim to Missouri). However, DWD was unable to provide these essential audit trail documents for our audit period. Our analysis indicates that DOL was not allocated its proper share, as follows:

- Costs were not based on the methodology in the cost allocation plans.
- Employees submitted presigned blank timesheets.
- There was no record of allocation for workers' compensation liability claims.

Since DWD and DOF could not provide critical records to account for DOL grant funds, they cannot support their claim for reimbursement to Missouri. Therefore, we are questioning all WIA and WtW grant costs, totaling \$4,110,061 for the period July 1, 2000 through July 31, 2004, broken down by program year as follows:

PROGRAM YEAR	WIA	WtW	Total
PY 2000 – July 1, 2000 – June 30, 2001	\$905,961	\$407,583	\$1,313,544
PY 2001 – July 1, 2001 – June 30, 2002	981,255	90,541	1,071,796
PY 2002 – July 1, 2002 – June 30, 2003	703,809	4,033	707,842
PY 2003 – July 1, 2003 – June 30, 2004	871,515		871,515
PY 2004 – July 1, 2004 – July 31, 2004	145,364		145,364
Total	\$3,607,904	\$502,157	\$4,110,061

Recommendations

Our draft report had 3 recommendations to address conditions described in this finding. The recommendations, Missouri's response to each recommendation, and the Auditor's conclusion for each recommendation follow:

Recommendation 1

We recommend that the Assistant Secretary for Employment and Training, in lieu of DWD's missing crosswalk spreadsheets used to allocate costs to DOL programs, direct Missouri to submit alternative documentation to support the claimed cost allocations of \$4,110,061 reimbursed to DWD for the period July 1, 2000 through July 31, 2004. Based on ETA's determination, recover unallowable or unsupported costs.

Response

The DWD Director and the County are deeply concerned about the disappearance of records that clearly existed during the period July 2000 through July 2004. The County stated that these records were available for state monitoring reviews and Single Audits. The County has crosswalk spreadsheets from July 2003 forward and

alternative documentation to support the claimed cost allocations and direct costs for the period July 1, 2000 through July 31, 2004.

Missouri intends to submit this alternative documentation as evidence of the clients served by these programs and the expenditures made on behalf of these programs to assure DOL that these grants were accounted for, and used to serve clients for which the grants were intended.

Auditor's Conclusion

This recommendation will be resolved as part of ETA's audit resolution process.

Recommendation 2

We recommend that the Assistant Secretary for Employment and Training direct Missouri to ensure that DWD allocates costs to DOL programs in accordance with the relative benefits received.

Response

The response did not address Missouri's actions to ensure that DWD allocates costs in accordance with the relative benefits received. The County's response inferred that their cost allocation methodology is adequate because Missouri's monitoring review in 2004 indicated the CPRs were reconciled to the crosswalk spreadsheets with no exceptions.

Auditor's Conclusion

Since the crosswalk spreadsheets were not available, we used other analytical methods to attempt to determine if DOL paid its fair share of DWD's costs. The report lists several indications that DWD did not properly allocated costs to DOL programs (see "Costs Were Not Based on the Methodology in the Cost Allocation Plans," page 9). This recommendation will be resolved as part of ETA's audit resolution process.

Recommendation 3

We recommend that the Assistant Secretary for Employment and Training direct Missouri to ensure that DWD and DOF maintain adequate records to account for all expenditures of DOL program funds.

Response

The response did not address Missouri's actions to ensure that DWD and DOF maintain adequate records.

DOF maintains records which identify the source and application of grant funded activities, including information on obligated funds, unobligated funds, assets, liabilities, outlays, etc. Further the County can support its use of such funds with procurement records and checks, paid bills, time and attendance records, etc.

The County believes that DWD, not the Director of Finance, is responsible for maintaining records of DWD. The County cites Section 130.050 D of the Municipal Code to support this assertion:

The Director of Finance shall be responsible for the development, implementation and maintenance of a system which allows him to process all accounts payable of St. Charles County including accepting requests for payment of goods or services, approving such requests if such requests are within the guidelines of the Department's budget and issuing payment.

The County believes the OIG is misinterpreting Section 130.055 C (see report page 8).

Auditor's Conclusion

Missouri, as grant recipient, is responsible for maintaining adequate documentation to support the claim to DOL, in accordance with 29 CFR 97.20 and 97.42 (see report page 8). Per the contract between Missouri and St. Charles County, the County is required to meet the same regulations. As fiscal agent for the County, DOF is accountable for maintaining records of all County departments, including DWD.

DOF must account for the overall use of DWD funds, as well as source documentation – in this case, the crosswalk spreadsheets – to support its claim to Missouri, and ultimately, DOL. This source documentation was not available for audit. This recommendation will be resolved as part of ETA's audit resolution process.



Elliot P. Lewis
March 24, 2006

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Appendices

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APPENDIX A

BACKGROUND

WIA was designed to reform the Federal job training system. WIA's primary purpose is to increase the employment, retention, and earnings of its participants, and increase occupational skills attainments by participants. DOL provides grant funding to the states to operate the WIA program. The states, in turn, select local operators to deliver services directly to participants.

The State of Missouri implemented WIA on July 1, 2000. The Missouri Division of Workforce Development (Missouri) is the state agency responsible for administering the WIA program. Missouri established Local Workforce Investment Areas (LWIAs) to operate the WIA program and deliver services. The Local Workforce Investment Board in each local area sets WIA policy for each area. Missouri selected St. Charles County to operate LWIA 14, and act as the grant recipient for workforce development funds under WIA.

In August 1996, the Personal Responsibility and Work Opportunity Reconciliation Act reformed the nation's welfare laws. A system of block grants to the state for Temporary Assistance for Needy Families (TANF) was created, changing the nature and provision of the welfare benefits in America. Moving people from welfare to work is one of the primary goals of Federal welfare policy.

The Balanced Budget Act of 1997 amended certain TANF provisions of the Social Security Act and authorized the Secretary of Labor to provide WtW grants to states and local communities for transitional assistance to move TANF welfare recipients and eligible non-custodial parents into unsubsidized jobs and economic self-sufficiency. St. Charles County also operates the WtW program in LWIA 14.

The County Executive delegated responsibility to administer these grants to DWD, while the County Municipal Code assigns DOF the responsibility for maintaining the financial records of the entire County, including DWD. DWD receives funding from the U.S. Departments of Labor, Transportation, and Agriculture. DWD received grant revenue from Missouri to operate the WIA program (including Adult, Youth, and Dislocated Workers) and WtW totaling approximately \$5.4 million for the audit period (July 1, 2000 through June 30, 2004).

In February and June 2004, we received two separate complaints with numerous allegations at DWD. Two allegations included specific details on the topic of single audits and workers' compensation premiums. The other allegations consisted of numerous charges that, in general, alleged that DWD overcharged DOL grants.

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APPENDIX B

OBJECTIVE, SCOPE, METHODOLOGY, AND CRITERIA

Objective

The objective of our audit was to determine the merits of allegations received in two hotline complaints.

Scope

Our audit period was July 1, 2000 through July 31, 2004.

Our audit scope included allegations in the following categories:

- single audit (See Results, page 6)
- workers' compensation premiums (See Results, page 6)
- DWD overcharged DOL grants (See Finding, page 6)

Due to a lack of documentation, specifically crosswalk spreadsheets, we were unable to perform our audit testing to determine if DOL grants were overcharged. The payroll cost allocations for the various DWD programs, including the formulas and calculations, were performed on crosswalk spreadsheets. However, DWD was unable to provide these essential audit trail documents. The crosswalk spreadsheets provided the detail support for the monthly amounts on the Declining Balance Reports and the Contract Progress Reports (DWD's claim to Missouri). Because of a lack of critical documentation showing how costs actually were allocated to DOL grants, DWD and DOF cannot support their reimbursement claim to Missouri for DOL grant funds, as required by 29 CFR 97, Section 97.20 (b).

During audit testing, we judgmentally selected a sample of 14 payroll registers from 84 payroll registers during our audit period to compare payroll deductions for workers' compensation premiums in the payroll register to the general ledger. Further, we selected a random sample of 10 months during the period July 2000 through September 2001 to test payroll. We also analyzed 8 monthly Declining Balance Reports from a total of 18 Reports available.

Methodology

To determine the merits of these allegations, we interviewed the identified complainant. We also interviewed representatives of DWD and DOF responsible for administering the program and the financial records. We reviewed a variety of materials, including cost allocation plans, Declining Balance Reports, timesheets, general ledgers, payroll registers and single audit report workpapers. We reviewed

monitoring reports, grants, and Contract Progress Reports provided by Missouri. We also interviewed County employees who worked at DWD during our audit period.

To meet our objectives, we reviewed DWD and DOF management controls over relevant activities. Our management controls work included obtaining and reviewing policies and procedures, interviewing key personnel, and reviewing selected transactions to observe the controls in place. Our testing of management controls focused only on the controls related to our audit objective of reviewing the complainants' allegations and was not intended to form an opinion on the adequacy of overall management controls, and we do not render such an opinion. Weaknesses noted in our testing are discussed in the Finding in this report.

Our testing determined DWD's compliance with Title 29 CFR 97 and OMB Circulars A-87 and A-133. This testing was not intended to form an opinion on compliance with laws and regulations as a whole, and we do not render such an opinion.

We conducted our performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and we performed such tests as we considered necessary to satisfy our audit objective. Because our objective was limited to assessing the merits of the allegations, we did not test St. Charles County internal controls and, therefore, we do not provide any assurance over the extent to which internal controls were properly designed or operating in St. Charles County.

Criteria

We used the following criteria to perform this audit:

- Title 29 CFR 97 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments
- Circular A-87 – Cost Principles for State, Local, and Indian Tribal Governments
- Circular A-133 – Audit of States, Local Government and Non-Profit Organizations
- The Municipal Code of St. Charles County
- Contract Agreements between Missouri, Division of Workforce Development and St. Charles County:

DWD 10-14-14-01 signed July 6, 2000
DWD 99-14-14-01 signed September 27, 2000
DWD 10-14-14-02 signed April 18, 2001
DWD 99-14-14-02 signed August 10, 2001
DWD 10-14-14-03 signed June 26, 2002

DWD 99-14-14-03 signed August 28, 2002
DWD 10-14-14-04 signed May 28, 2003
DWD 99-14-14-04 signed October 1, 2003
DWD 10-14-14-05 signed July 1, 2004
DWD 99-14-14-05 signed July 28, 2004

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ACRONYMS AND ABBREVIATIONS

CFR	Code of Federal Regulations
DOF	St. Charles County, Department of Finance
DOL	U. S. Department of Labor
DWD	St. Charles County, Department of Workforce Development
LWIA	Local Workforce Investment Area
OMB	Office of Management and Budget
TANF	Temporary Assistance for Needy Families
WIA	Workforce Investment Act
WtW	Welfare-to-Work

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APPENDIX D

AGENCY RESPONSE TO DRAFT REPORT

Matt Blunt Governor	MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT	Gregory A. Steinhoff Director
Division of Workforce Development		Roderick Nunn Director

September 20, 2006

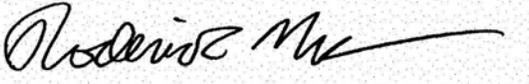
Charles M. Allberry
Regional Inspector General for Audit
U.S. Department of Labor
230 South Dearborn, Room 744
Chicago, Illinois 60604

Dear Mr. Allberry:

I am enclosing a copy of the St. Charles County letter to the Missouri Division of Workforce Development in response to your **draft report** of Report Number: 05-06-001-03-390 previously transmitted to me on August 30, 2006. The Missouri Division of Workforce Development met in person with representatives from the County, held two conference calls to discuss their proposed responses, have reviewed the St. Charles County response and are in agreement with the County's response. We would respectfully request that these comments and your evaluation be incorporated into the appropriate sections of the final report in addition to the attachment to the final report.

Please contact me with any questions.

Sincerely,



Roderick Nunn

RN:DMP

Enclosure

St. Charles County Government

County Counselor

September 19, 2006

Mr. Roderick Nunn
Director
Department of Economic Development
Division of Workforce Development
421 East Dunklin Street
Jefferson City, Missouri 65102-1087

RE: SAINT CHARLES COUNTY'S RESPONSE TO
U.S. DEPARTMENT OF LABOR
Office of Inspector General - Office of Audit
REPORT No.: 05-06-0001-03-390

Dear Mr. Nunn:

St. Charles County is a charter County and political subdivision of the State Of Missouri. Through its Department of Workforce Development, the County is a grant sub-recipient of workforce development funds under the Workforce Investment Act (WIA) and Welfare-to-Work (WtW) programs from the Missouri Division of Workforce Development (State).

In September of 2004 the County received an unannounced on-site review from three (3) auditors with the Department of Labor Office of the Inspector General. The auditors indicated they were present to investigate complaints DOL received about the County DWD's use of DOL grants. No specifics were provided to the County. The auditors indicated they would need County DWD and Finance Department records. Since DWD is offsite of the main campus, the auditors were provided a conference room and unfettered use of a copy machine on the main county campus. The auditors were free to come and go and had unlimited private access to the telephone.

In the Department of Finance, one DOL auditor was primarily present, and seemed to be largely testing DWD purchase records. The Assistant Director of Finance was provided a list of documents the Department of Finance was being called on to provide. That list, which she has retained, included the following: Chart of Accounts, the General

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Ledger 2001-2002, the subsidiary general ledgers for all Department of Labor programs 2001-2002, Cash Requests for Department of Labor grants 2001-2002, Time sheets for Department of Labor grants July 1, 2000 -December 31, 2003 and Purchase Requisitions, Purchase Orders, Accounts Payable Ledger from 2000-2004. Cost allocation plans and cross-walk spread sheets were not requested of her then or at anytime before the auditors left in November of 2004. She did however physically show the auditor one month of the cross-walks of which she had retained copies of and the back-up and explained that she had retained copies of these reports and back-up from July of 2003 forward.

Cost allocation plans and cross-walk spread sheets were among the documents requested of the Director of the Department of Workforce Development. The Department's Director was at a disadvantage in that his Fiscal Manager, the County employee primarily responsible for these records, had suffered a stroke in March of 2004 and had been absent until his resignation on September 2, 2004. Further all financial documents of the Department were part of the responsibility of this Fiscal Manager. The documents requested were documents routinely used and reviewed by the external independent auditors, the State monitors, and were regularly in use at the DWD. The reconciliation of the cross-walks to the costs and the form of the Cost Allocation Plan had been a subject frequently discussed during audits and monitorings. While the Director of DWD had assumed the position in May of 2002, he was aware of the monitoring comments by the State and the procedures which he had directed be modified to meet monitoring comments.

The DWD Director and the County are deeply concerned about the disappearance of records that clearly existed during the period of July 2000 through July 2004. Annual Single Audits by independent external auditors, state monitoring, and even copies of 13 months of the 49 month audit period retained in the Department of Finance demonstrate that the documents did in fact exist. Neither the DWD Director nor any other County official authorized the destruction of any records from this period.

In fact, a state monitoring report on February 26-28, 2001, noted that it *"Reconciled the WIA Contract Progress Reports, for the period ending January 2001, by line item back to St. Charles County Government Department of Workforce Development's declining Balance Report dated January 31, 2001."* That monitoring noted the County's change of software and criticized the County's allocation of costs, recommending the development of a cost allocation plan that *"allocates all expenditures based on a benefit derived basis."*

A monitoring for the previous year by the State, transmitted on January 12, 2000, notes under *"Sample Transactions"* that *"The review consisted of determining if each sampled transactions was an allowable DWD program expenditure, if there was adequate documentation to support the disbursement, if the expenditure was charge [sic] to the correct program and cost category. Items procured were reviewed for compliance with DWD procurement guidelines. If the cost was allocated, the cost allocation method*

was reviewed. No concerns were noted."

Similarly, in a review of the Program Year Ending June 30, 2004, the State monitoring notes that all of the Contract Progress Reports for WIA were reconciled to Excel Spreadsheets [cross-walks] with no exceptions. Further, that same report notes in Comment #7 "*The Cost Allocation Plan needs to be more fully developed with better explanations on how the cost allocations were made.*"

Comments offered in December of 2002 to improve the accounting system, but requiring no response by the County, included recommendations of additional information to be included on the Excel spreadsheets which the County DWD developed as the cross-walks.

The County has further evidence of the existing cross-walk spread sheets in the single year audits. The single year audits reviewed these programs as significant programs of the County. While independent audit work papers are proprietary, and the County is not currently contracting with that independent auditor¹, the independent auditor for 2001, 2002 and 2003 has provided copies of sample testwork within their workpapers, including cross-walks and declining balance reports and are willing to further assist where needed. The previous Fiscal Manager of DWD, also indicated the cross-walks existed while he was employed and indicated that there were twenty years of records there when he was Fiscal Manager.

The County recites these indicators, and further offers extensive evidence of the clients served by these programs and the expenditures made on behalf of these programs, to assure the Department of Labor that these grants were accounted for, and used to serve clients for which the grants were intended.

The records the Department of Labor sought were under the control of the Fiscal Manager of the Department of Workforce Development. The documents sought by DOL have been unable to be located since the resignation of the Fiscal Manager in September of 2004. Nor does the County have the assistance of the former Fiscal Manager in determining his knowledge with regard to the disappearance of these records in that the employee is litigating with the County with regard to a claim for worker's compensation. Nevertheless, various County systems retain copies of numerous documents which will allow the County to submit alternative documentation to support the claimed cost allocations and direct costs for the forty-nine (49) month period of July 1, 2000 through July 31, 2004.

The County accepts that the State will submit alternative documentation to support the claimed costs.

¹ The County chooses its independent auditor through its purchasing policy, which requires the bidding process every three years. The bidding process resulted in a new audit firm for the three (3) year period of 2004-2006.

In addition to this Response to the Executive Summary, the County makes the following specific comments with regard to the audit draft:

On page 6, the OIG states:

"Because the DOL grants were not a significant County program, the public accounting firm performing the County single audit tested only a limited number of DWD expenditures in 2001, 2002 and 2003 to meet the requirements of the Single Audit Act."

The County reply:

The single year audits for the years ending December 31, 2001, 2002, 2003 and 2004 note that the Workforce Investment is a major program tested. In addition, Welfare to Work is listed as a major program tested for the years ending December 31, 2001 and 2002. To the best of the County's information, the audit firms performed A-133 Single Audit standard industry audit tests for an Annual Single Audit.

On page 7 the Audit states :

" However, DWD was unable to provide these (crosswalk spreadsheets) essential audit trail documents." ... " DWD staff later informed us that they could not provide the cross walk spread sheets through July 31, 2004, our audit cut-off. Further the Declining Balance Reports were not available after September 2001."

The County reply:

The DOL OIG auditors had separated, with one talking to DWD and one to Department of Finance. As set forth in the response above, the DWD Director was without the Fiscal Manager and was unable to locate the documents. The Department of Finance Assistant Director was not asked for the crosswalk spread sheets. She was asked for the Chart of Accounts, the General Ledger 2001-2002, the subsidiary general ledgers for all Department of Labor programs 2001-2002, Cash Requests for Department of Labor grants 2001-2002, Time sheets for Department of Labor grants July 1, 2000 - December 31, 2003 and Purchase Requisitions, Purchase Orders, Accounts Payable Ledger from 2000-2004. The cash requests and timesheets were at the DWD and were requested from there by the Assistant Director for the requesting DOL OIG auditor.

The Assistant Director at the Department of Finance, while never asked for Cross-walk spreadsheets, suspected that the spreadsheets would answer some of the questions she was being asked and so made available the 13 months (July 2003 through July 2004) of copies of cross-walk spreadsheets and back up of which she was in possession.² The

² The Assistant Director of Finance became involved in working the crosswalk spreadsheets in July 2003 as a result of a state monitoring which raised concern about

OIG Auditor assigned to her department did not speak to her about what use, if any, he made of those copies. To her knowledge, he did not copy them.

With regard to declining balance reports, the State's own monitoring for the period ending June 30, 2004, noted the Contract Programs Reports were reconciled to the Excel Spreadsheets with no exceptions. Clearly the declining balance reports did exist.

On page 8 the Audit quotes 29CFR97 § 97.20(b). The County will refrain from repeating the quotation.

County Reply:

The County maintains records which identify the source and application of grant funded activities, including information on obligated funds, unobligated funds, assets, liabilities, outlays, etc. Further, the County can support its use of such funds with procurement records and checks, paid bills, time and attendance records, etc. The County has not authorized the destruction of any DWD records related to the time period July 2000 through July 2004.

In addition, the DWD, not the Director of Finance, was responsible for these records. The St. Charles County Code, Section 128, established the Department of Workforce Development by ordinance passed December 29, 1999. The Department thus became a functioning County Department under the control of the County for its policies and procedures, including its accounting, for the first time in 2000. *Section 128.020 OSCCMo* details the powers and duties of the department head which include, but are not limited to, governing and controlling the day to day operations of the department, and its programs which provide employment and training services for St. Charles County citizens who meet Federal guidelines in an effort to maintain full employment in St. Charles County and for its citizenry. Further, the Department of Finance is not assigned with the responsibility for maintaining the financial records of the entire County, including DWD, according to the "Municipal Code" as the report states. DOF's duties and powers are set out in §130.050 OSCCMo. Nowhere in that section is the Director of Finance charged with maintaining the financial records of the entire County. In fact, §130.050.D OSCCMo states:

The Director of Finance shall be responsible for the development, implementation and maintenance of a system which allows him to process all accounts payable of St. Charles County including accepting requests for payment of goods or services, approving such requests if such requests are within the guidelines of the Department's budget and issuing payment.

The DOL OIG audit misinterprets §130.055 OSCCMo, to mean such; however, that section provides for the transfer of certain duties from the County Auditor to the Director of Finance and must be read *in pari materia* with the authority granted the Department of Finance in its enabling ordinance.

Page 10 The Audit states:

working with the DWD Fiscal Manager. The Assistant Director of Finance retained copies of all work with which she was involved.

The first semimonthly payroll for November 2001 contains pre-signed blank time sheets. The Auditors contacted one employee who confirmed she signed a blank time sheet.

County Reply:

On October 31, 2001, the County removed the DWD Director pursuant to an investigation which ultimately led to his permanent removal. From November 15, 2001 forward the time sheets are filled out directly by the employee with regard to time and leave, and the grant to which they allocated their time. Prior to that date, the employee accounted for their time directly, however a DWD fiscal employee indicated she assisted with some forms. Some aspects of the time sheets are testable, such as through the original leave sheets filled out by the employee and attached to all time sheets. These leave sheets clearly show the employees' personal documentation for their time. Moreover, some employees worked on a single grant during the period audited. Grant time deriving from that period was tied to client count kept by the DWD Fiscal Manager.

On page 10 the Audit indicates:

There is no record of payment or allocation for worker's compensation claims.

County Reply:

Evidence in the County records concerning the County General Fund irrefutably establishes that the County paid DWD's worker's compensation claims from the County's general fund.

Thank you for the opportunity to reply to the OIG Draft Report.

Sincerely,

/s/ Joann Leykam

Joann Leykam
County Counselor

Cc: County Executive Ortwerth
DWD Director Don Holt
Director of Finance Rebecca Craig
Assistant County Counselor Beverly Temple
Assistant Finance Director Debbie Salvo