

FY 2000 Consolidated Financial Statement Audit Detailed Findings And Recommendations Report to the Chief Financial Officer

We have audited the Principal Statements of the United States Department of Labor (DOL) as of and for the year ended September 30, 2000, and have issued our report thereon dated February 15, 2001. We conducted our audit in accordance with generally accepted auditing standards; 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 agency'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, such as those controls relevant to ensuring efficient operations. 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 operations that we consider to be reportable conditions. However, none of the reportable conditions is believed to be a material weakness.

With respect to internal control related to performance measures reported in the Department's FY 2000 Performance and Accountability Report, 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.

The Assistant Inspector General's Report, which expresses our opinion on the fair presentation of DOL's Fiscal Year 2000 principal financial statements, and our reports on internal control and compliance with laws and regulations, will be presented in the Department's FY 2000 Performance and Accountability Report. In order to provide information to management that could help in the development of responses and corrective actions for the reportable conditions and instances of noncompliance that will be included in

these reports, we are providing the following detailed findings and recommendations to the Chief Financial Officer (CFO). This report is intended solely for the information and use of the management of the Department of Labor, OMB and Congress, and is not intended to be used and should not be used by anyone other than these specified parties.

Findings and recommendations relating to our tests of general controls and security of the EDP systems that support the financial statements of the Department, which will also be included in our report on internal control, will be transmitted to the Chief Information Officer (CIO) in a separate report.

As a result of our FY 2000 audit, we identified new findings in 3 areas and made 11 recommendations. Based upon management's response to our draft report, 4 recommendations are resolved and 7 are unresolved. As part of our audit, we reviewed the status of prior years' findings and recommendations. A total of 41 prior years' recommendations remain open, of which 7 are unresolved. Thirty prior year recommendations have been closed, including 8 which were previously unresolved. Three prior year recommendations have been removed from this report and will be included in our FY 2000 DOL Management Advisory Comments. Eighteen previously unresolved recommendations have been resolved. One recommendation which had previously been resolved has been reclassified as unresolved due to the lack of progress in taking corrective action.

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	Total Open
Crosscutting Issues:										
Debt Management							1			1
Funds with U.S. Treasury							1		4	5
Accounting for Grants			1	1	1	2	1	7	3	16
Property and Equipment				3						3
Working Capital Fund Cost Allocation	1									1
Performance Measures	1									1
Program Specific Issues:										
Wage and Hour's Back Wage Systems		2				7				9
Wage and Hour CMP Systems		2				4				6
FECA Program			3			1				4
Unemployment Trust Fund			2						4	6
Total Open Recommendations	2	4	6	4	1	14	3	7	11	52

1. Funds with Treasury

Current Year Finding and Recommendations

a. Unreconciled Differences with Treasury

The Department records its budget authorization in Fund Balance with Treasury accounts, and increases or decreases these accounts as it collects or disburses funds. Although Treasury serves as a bank, unlike commercial banking institutions, it does not maintain independent accounting records of each agency's Fund Balances with Treasury. Treasury has established reconciliation procedures agencies must follow to ensure the reliability of receipt and disbursement data reported by agencies.

The Department's financial statements contain amounts that are derived from transactions processed through the Department's 50 Agency Location Codes (ALCs), as well as transactions processed by other agency's ALCs (outside ALCs). For each of the Department's ALCs, deposits and disbursements are reported monthly to Treasury on the SF-224 *Statement of Transactions* reports. Treasury prepares a monthly TFS-6652 *Statement of Differences* for deposit and disbursement data if the amounts reported on the SF-224 do not agree with amounts reported to Treasury by financial institutions. In addition, Treasury utilizes the data reported on the SF-224s to update its records for each appropriation, and reports these amounts monthly to DOL on the TFS-6653 *Undisbursed Appropriation Account Ledger* report. Thus, the Department receives a TFS-6653 for each of its appropriations (if there was any activity that month) which shows the amounts reported to Treasury via the SF-224s from the Department as well as outside agencies. For example, the Department's granting agencies utilize the Department of Health and Human Services Payment Management System (HHS-PMS) to process grant disbursements. There were approximately \$9.2 billion in disbursements processed through this system during FY 2000. HHS-PMS reports this activity to Treasury on the SF-224 reports and Treasury reports this information back to DOL monthly on the TFS-6653s.

Because of government-wide reconciliation problems, in November 1999 Treasury issued *Reconciliation Procedures: A Supplement to Treasury Financial Manual I TFM 2-5100*. This document provides detailed procedures for performing monthly reconciliations of Fund Balance with Treasury accounts, including a requirement to maintain detailed reconciliation worksheets at the document level, so differences can be promptly investigated and properly cleared.

We found the Department did not adequately implement these procedures. For example, approximately \$7.8 billion of the Department's \$9.2 billion processed by the HHS-PMS system relate to the Employment and Training Administration's (ETA) grants. ETA did not perform reconciliations at the appropriation level throughout FY 2000 (where HHS-PMS activity is reported), and we found no evidence to support that effective reconciliations were performed between HHS-PMS and the general ledger at the document level. (This has been addressed in a separate OIG finding). Toward year-end, the OCFO performed reconciliations and made adjustments for \$23 million. However, at year-end, cash adjustments still included \$13 million (net) in unreconciled ETA differences.

Year-end adjustments reflect a netting of unreconciled differences at the document and ALC levels. The netting of amounts can significantly understate the extent of the differences that exist at the document level. The use of absolute values provides an indicator of the extent of potential differences, even though absolute values may not adequately account for offsetting amounts. The extent of ETA's unreconciled differences at the document level could not be determined. However, after identifying and eliminating most offsetting amounts at the ALC level, the absolute value of DOL's year-end adjustment related to ETA was over \$550 million. This indicates that if differences at the ALC level are totaled, rather than netted, over \$550 million of cash differences were uncleared, incorrectly cleared, or not cleared timely during the year. Because adequate reconciliations were not performed at the document level, the extent of the reconciliation problems at this level could not be determined.

The Department's Fund Balances with Treasury are also impacted by payroll-related transactions processed by the U.S. Department of Agriculture's ALC. DOL did not effectively reconcile and clear this activity at the document level during the fiscal year. As a result, a \$31 million year-end cash adjustment was required to agree the general ledger to what was reported to Treasury.

In addition, we found \$10.6 million of suspended Departmental payroll transactions in a clearing account as of September 30, 2000 that had been outstanding for more than 90 days. Because these amounts have not been identified and cleared, one or more appropriation accounts are misstated.

Because the Department's general ledger did not agree to what was reported to Treasury at the appropriation level, large cash adjustments were still required at fiscal year end in order to balance to what was reported to Treasury. For FY 2000, the cash adjustments totaled \$44 million (net) at the appropriation level. Therefore, the Department continues to have significant control weaknesses over its Fund Balance With Treasury.

Recommendations

We recommend that the Chief Financial Officer ensure that:

- 1. Agencies identify and clear differences at the document level at least monthly.**
- 2. Reconciliation procedures effectively address Departmental funds processed through non-DOL ALCs (e.g. HHS, USDA, Treasury, etc.)**
- 3. Reconciliation worksheets are prepared in compliance with Treasury and OCFO guidance.**
- 4. The resolution of differences is adequately supported by source documentation.**

Management's Response:

The Department agrees that cash reconciliations are necessary and must be performed on a monthly, if not daily, basis. The OCFO has formed a task force to address cash reconciliations department wide. This task force will ensure that all agencies, including the OCFO, comply with the Treasury directive on reconciling Funds with Treasury balances. In some instances, the task force will perform the actual reconciliations. In addition, the task force will ensure that agencies

have sufficient resources and the appropriate procedures in place to perform and document reconciliations as required by the Treasury directive. The procedures will also include a process for continual monitoring of agencies by the OCFO to ensure agencies are reconciling Funds with Treasury and to take appropriate action when it determines reconciliations are not being performed as required.

Also, the OCFO will work with the grant agencies and HHS to refine the reports to facilitate reconciling the Department's records with HHS' records.

OIG's Conclusion:

These recommendations are **unresolved** pending submission of a specific corrective action plan for our review which identifies procedures and time frames for completion.

Status of Prior Year Findings and Recommendations

Unreconciled Differences with Treasury

In FY 1998 (OIG Report No. 12-99-002-12-001) we reported that the Department had unreconciled differences with Treasury. We recommended that the Chief Financial Officer:

- ***ensure that agencies are reconciling their differences properly and on a timely basis. The OCFO should monitor the agencies' differences and work with the agencies and Treasury to resolve those differences.***

Our review of the Department's ALCs revealed unreconciled differences were \$13.1 million (absolute value) as reported on the September 30, 2000 TFS 6652s, *Statements of Differences*, reflecting no significant change from the prior year. These differences are summarized at the ALC level. The true misstatement could be significantly higher, because all document-level differences are netted at the ALC level. If these differences are not properly reconciled, it is not possible to determine the true extent of the misstatement at the ALC or appropriation level.

Differences were found in 42 of the Department's 50 ALCs. Although timing differences may be expected (for transactions posted by Treasury at the end of a month and by the Department in the following month), over half (52%) of the total differences at year-end relate to **July 2000 or prior, going back as far as September 1997.**

We tested the reconciliation process of the TFS Form 6652 and found that the following ALCs were not adequately reconciled (differences identified and cleared) on a monthly basis:

- ETA - Grants (National Office)
- ESA - Salaries and Expense
- ESA - Wage and Hour Division
- OCFO - Payroll

Monthly reconciliations are required to identify and clear differences between the general ledger and Treasury at the document level. This recommendation remains **unresolved** pending implementation of an adequate corrective action plan.

Management's Response:

As stated in our response to the previous finding on Funds with Treasury, the Department agrees that cash reconciliations are necessary and must be performed on a monthly, if not daily, basis. The OCFO has formed a task force to address cash reconciliations department wide. This task force will ensure that all agencies, including the OCFO, comply with the Treasury directive on reconciling Funds with Treasury balances. In some instances, the task force will perform the actual reconciliations. In addition, the task force will ensure that agencies have sufficient resources and the appropriate procedures in place to perform and document reconciliations as required by the Treasury directive. The procedures will also include a process for continual monitoring of agencies by the OCFO to ensure agencies are reconciling Funds with Treasury and to take appropriate action when it determines reconciliations are not being performed as required.

The task force will initially work to ensure that Funds with Treasury reconciliations are being performed for current months and that effective procedures for reconciliations are in place. Once this is accomplished, the task force will address prior periods for which reconciliations were not performed. In these instances, the task force will either oversee the reconciliations or if necessary, perform the actual reconciliations. We believe that the task force will have all reconciliations completed and procedures in effect by September 30, 2001.

OIG's Conclusion:

This recommendation remains **unresolved** pending submission of a specific corrective action plan for our review which identifies procedures and time frames for completion.

2. Unemployment Trust Fund

Current Year Finding and Recommendation

Unemployment benefit payments reported by states on form 2112 and recorded in DOLAR\$ were understated.

In the FY 1997 Management Advisory Comments (OIG Report 12-99-001-13-001), the OIG recommended that the Department ensure that reconciliations of the States' ETA form 2112 reports and Treasury Statements of Deposits and Withdrawals be performed on a quarterly basis. During our FY 1998 and FY 1999 audits we found that the Employment of Training Administration's (ETA) reconciliation process was not functioning correctly and the states were several years behind with this reconciliation.

As part of our FY 2000 update of prior year findings and recommendations, we found that ETA's reconciliation process provided only Federal funds data from the Financial Management Reporting System (FMRS) to the states for reconciliation purposes. We recommended that ETA include all funds in its reconciliation process.

During the third quarter of FY 2000, personnel assigned to the Office of the Chief Financial Officer (OCFO) used data from the FMRS and compared state reported drawdowns to Treasury

reported drawdowns. As a result of this reconciliation, ETA found that advances to states and state unemployment benefit expenses were significantly misstated as of September 30, 1999.

Starting in January 1999 Federal income taxes withheld from claimants' benefit payments were paid directly to the Internal Revenue Service by Treasury rather than by the states. States reported drawdowns net of the Federal income tax 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\$.

Standards for Internal Control in the Federal Government, published November 1999 by the General Accounting Office provides the following information:

Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives, such as the process of adhering to requirements for budget development and execution. They help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results. Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, **reconciliations**. . . . [*Emphasis added.*]

Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

Because of the lack of routine and timely reconciliations of state drawdowns reported on ETA form 2112 and drawdowns reported by Treasury, state advances were overstated and benefit expenses were understated in the Department's fiscal year ended September 30, 1999 financial statements. In addition, during FY 2000, net benefit expenses continued to be recorded in the UIDB and used to adjust gross advances. During the FY 2000 year end financial statement process, advances and benefit expense balances were adjusted by \$288 million and \$403 million for FY 1999 and FY 2000, respectively.

Recommendations

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

- 1. Reconciliations using FMRS and Treasury data are performed timely and include comparisons of drawdowns for state benefits in addition to drawdowns for Federal benefits.**
- 2. ETA monitors the reconciliation process on a quarterly basis and provides the OCFO status reports on the results of the reconciliations.**
- 3. OCFO documents procedures used to verify that state reported data recorded in DOLAR\$ through the FMRS is accurate.**

4. **OCFO evaluates analytical procedures used to verify state UI advance, accounts payable, and benefit expense data entering DOLAR\$. This evaluation should include an analysis of whether the procedures are proper in design and application. The allowable variance from expectation should be determined in such a way that significant changes in the above mentioned balances would be detected.**

Management's Response:

ETA management agrees that monitoring and reconciliations of Financial Management Reporting System (FMRS) and U.S. Department of the Treasury (Treasury) data, including Federal and state benefits, should be performed on a timely and recurring basis.

To prevent future misreporting, the ETA, Office of Workforce Security (OWS) will clarify the instructions for the ETA 2112, specifically requiring states to report all benefits properly, including the amounts withheld and sent to the Internal Revenue Service (IRS) for Federal taxes on benefits.

Beginning June 30, 2001, the ETA, OWS will monitor state reconciliation of FMRS and Treasury data on a quarterly basis by (1) generating FMRS reports designed to detect major discrepancies between information reported on the ETA Form 2112 and Treasury information, (2) working with states that have large discrepancies to correct them, and (3) following up to ensure that states complete required corrective action, and (4) providing the OCFO with a quarterly status report.

Also, starting in FY 2001, the ETA, OWS will inform states that an annual reconciliation of all benefits is required with a target due date of December 31 to complete the prior fiscal year's reconciliations.

Finally, since review of the FMRS and reconciliations of Financial Management Reporting System (FMRS) and U.S. Department of the Treasury (Treasury) data will readily disclose discrepancies similar to those discovered this year, the OCFO is uncertain what additional analytical analysis is needed. However, the OCFO will include in its compilation guide, a requirement that should the FMRS become unavailable, the state data must be reviewed and analytical procedures developed to determine if discrepancies exist.

OIG's Conclusion:

We concur with management's plan to correct this control weakness. These recommendations are **resolved and open** pending our review of the effectiveness of the proposed controls during the FY 2001 audit.

Status of Prior Year Findings and Recommendations

Federal Employees Unemployment Compensation

In our FY 1994 audit, we noted that the accounting function for the Federal Employees Compensation (FEC) Account was not sufficiently performed. Several accounting functions were performed incorrectly, untimely, or not at all. There was little or no management oversight of staff activities. As a result, the financial position of the FEC Account was unknown. We made the following recommendations (OIG Report No. 12-95-004-07-001):

- *The Chief Financial Officer ensures that necessary steps are taken to accurately record the financial activity of the FEC Account in a self-balancing manner that is fully integrated with the Department's general ledger system. Such an accounting should include control accounts (with corresponding subsidiary ledgers) for advances to states, expenditures by states, receivables from Federal agencies, and revenues from Federal agencies.*
- *Ensures that procedures are implemented for routine UIS management review of the FEC Account accounting activities and reconciliation of subsidiary ledgers and control accounts.*

During our FY 2000 audit, we found that the interface system for chargeback data to DOLAR\$ was not in place. Through agreement between ETA and the OCFO, the crosswalk to interface the data will be redesigned by the OCFO. ETA personnel has provided the requested specifications for the chargeback system to the OCFO. While reviews of the activity within the chargeback system is performed by Office of Workforce Security (OWS) personnel quarterly, management reconciliation of subsidiary ledgers and control accounts cannot be performed until the chargeback activity is recorded in DOLAR\$ control accounts.

These recommendations remain **resolved and open** pending the completion of a system that can be used to establish control accounts within DOLAR\$ which will provide OWS management the ability to complete their review process procedures.

Management's Response:

The ETA, OWS agrees that FEC Account financial activity should be fully integrated with the Department of Labor Accounting and Related Systems (DOLAR\$). The ETA, OWS continues to work with OCFO to produce specifications for the transfer of charge back data to the DOLAR\$. The ETA, OWS anticipates testing to begin in mid-March 2001, and barring unforeseen circumstances, implementation will begin no later than late June 2001. It should be noted that recording advances to states and expenditures by states in the DOLAR\$ control accounts is covered under the FMRS; the additional work specified above is to record receivables and revenues from Federal agencies.

OIG's Conclusion:

The OIG agrees with management's correction action plan. The portion of the recommendation related to advances to states and expenditures by states is **closed** since these accounts are recorded in DOLAR\$ through the FMRS. The recommendations remain **resolved and open** related to FEC pending OIG's review of the chargeback system during the FY 2001 audit.

3. Accounting for Grants

Current Year Findings and Recommendations

a. DOLAR\$ Grant Transactions Not Reconciled to DHHS/PMS

ETA uses the Department of Health and Human Services (DHHS) Payment Management System (PMS) to process grant payments for the majority of their grants. The grants are established on PMS and grantees are given online access in which they can draw down grant funds. The maximum amount that can be drawn by the grantee is controlled by the total funds authorized (obligated) in PMS. An interface has been established to electronically record grant obligations in the PMS system (out-bound transactions) and to record payments processed by PMS in the DOLAR\$ general ledger (in-bound transactions). In FY 2000, approximately \$7.8 billion of grant payments were processed by PMS for ETA's grants.

Since PMS is the initial system of record for grant payment transactions, it is essential that all of these transactions accurately interface to DOLAR\$, and that the two systems reconcile. In addition, DHHS is responsible to reconcile PMS payments with Treasury via the SF 224 reconciliation process, and the assumption has been that PMS accurately reflects the grant payments made by Treasury. If the payment amounts recorded in DOLAR\$ do not agree to the amounts recorded in PMS, the Funds with Treasury account reflected in DOLAR\$ would be out of balance with the Treasury TFS 6653, *Undisbursed Appropriation Account Ledger* for the respective appropriations.

The need to reconcile PMS and DOLAR\$ is recognized in the Department's written policy which requires that agencies reconcile their respective financial information recorded in the two systems at least quarterly (DLMS-6 Chapter 7, paragraph 713). In ETA's case, these requirements apply to both the payments processed by PMS as well as the obligations recorded in PMS (because the obligation controls the total amount available for draw down). The PMS Synchronization Reports (Sync Reports) have been developed to assist the granting agencies in reconciling information recorded on the two systems. These reports list the PMS documents, by fiscal year, compare the respective amount recorded in DOLAR\$, and compute the difference. Agencies are responsible for analyzing the differences and determining the adjustments, if necessary, to ensure that the records are in agreement.

Our audit disclosed that ETA does not reconcile PMS transactions, by document, to those recorded in DOLAR\$. The Sync Reports reflect significant differences in obligation and payment amounts recorded on the two systems for ETA's grants, as follows:

FY	No. of Documents	PMS Obligations	DOLAR\$ Obligations	Difference
Prior	565	\$ 6,861,137,358	\$ 6,244,981,977	\$ 616,155,381
97	61	\$ 200,409,711	\$ 152,793,348	\$ 47,616,363
98	63	\$ 118,221,032	\$ 74,325,727	\$ 43,895,305
99	58	\$ 346,708,258	\$ 359,259,025	\$ (12,550,767)
00	114	\$ 1,204,874,111	\$ 1,206,442,643	(\$ 1,568,532)

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FY	No. of Documents	PMS Payments	DOLAR\$ Payments	Difference
Prior	460	\$ 7,433,782,727	\$ 6,847,226,820	\$ 586,555,907
97	58	\$ 251,504,353	\$ 206,281,619	\$ 45,222,734
98	79	\$ 175,294,756	\$ 132,297,795	\$ 42,996,961
99	45	\$ 144,904,319	\$ 144,546,508	\$ 357,811
00	47	\$ 226,801,336	\$ 215,651,748	\$ 11,149,588

ETA contends, and we concur, that the differences reflected above do not always indicate that the grant transactions recorded in PMS are out of balance with DOLAR\$. There are many reasons why the Sync Report will reflect differences for a particular document, some of which are the result of the process by which the Sync Report is generated. For example:

1. There are timing differences for payment information reflected on the Sync Report. (It is our understanding that these differences, for the most part, have recently been alleviated.)
2. In July 2000, DHHS converted PMS to a new computer system. Subsequent to this conversion, the Sync Reports did not reflect accurate PMS information. Apparently, the PMS information for the months of July, August and September reflected current period activity only, rather than cumulative grant balances. This situation went uncorrected until year-end. (A corrected Sync Report was produced at year end, therefore, this situation does not account for the differences noted in this finding.) The revised PMS system continues to undergo improvements, and a service auditor report is not yet available covering the new system.
3. The Sync Report identifies each agency's documents recorded in PMS and searches for matching information (document number, RCC codes, etc.) in DOLAR\$. If an exact match is not found, the DOLAR\$ column will be blank. It does not search DOLAR\$ for documents with PMS activity that were not matched in the first search. This results in large variances which are not true differences between the two systems.

For example, we noted numerous instances where a portion of a document's obligations, payments and costs were moved to a separate RCC code in DOLAR\$, resulting in two documents with the same document number but a different RCC number. However, PMS was never adjusted to reflect the new coding and continued to reflect only one RCC code with the total grant activity. When the Sync Report was generated, it found the PMS document, searched DOLAR\$ and matched only the activity remaining in the original RCC code. Accordingly, the report reflected significant variances equal to the amount transferred to the second RCC code. If the Sync Report listed all DOLAR\$ documents with PMS activity (those which have an exact match and those that do not), the report would reflect an offsetting variance for this document. This situation presents a significant problem for ETA and accounts for many of the "differences" listed on ETA's Sync Report for FY 94, FY 95 and FY 96.

4. Grants are sometimes archived from DOLAR\$ prior to being closed and/or reconciled with PMS. Therefore, the Sync Report will reflect activity for the PMS document but the DOLAR\$ column will be blank. (Differences for grants that have been archived on

DOLAR\$ are not included in the differences reflected in this finding.) Currently, DOLAR\$ documents are archived when grant obligations, costs and payments are equal and when no document activity has occurred in the previous fiscal year. There is no flag to indicate which grants have been officially closed (and reconciled) by the granting agencies. In addition, the Sync Report lists PMS documents dating back to 1990, rather than active documents only. This makes the report unnecessarily voluminous.

5. The Sync Report currently truncates numbers in the hundreds of millions. Since many of ETA's grants are this large, the Sync Report numbers for these grants do not make sense (the difference column was correctly calculated, but did not make sense based on the numbers listed).

The issues listed above indicate the Sync Report is in need of certain improvements in order to provide a more useful tool for reconciliation. However, these issues would have been identified and resolved had management been using this report to reconcile their PMS grants. Furthermore, it is not reasonable to assume that the differences listed on the Sync Report are entirely related to these issues rather than to actual differences between PMS and DOLAR\$. Other DOL granting agencies performed detailed reconciliations of PMS and DOLAR\$ activity during FY 2000, and noted the following events:

1. PMS transactions were posted twice in DOLAR\$.
2. An entire quarter of grant costs was recorded on PMS but not on DOLAR\$.
3. Selected days of payment activity were recorded on PMS but not on DOLAR\$.
4. From October to February, the PMS data used to generate the Sync Report did not agree to the PMS data on the In-bound Report (the In-Bound Report is the source of data interfaced to DOLAR\$). Whereas the Sync Report data agreed to confirmed Treasury payments, the In-Bound Report in some cases reflected different numbers. According to management, they were told by PMS that there were system errors from October to February which had subsequently been corrected. However, adjustments were necessary to correct transactions posted to DOLAR\$ during this period.
5. Transactions that suspended during the PMS/DOLAR\$ interface were not properly handled when cleared from suspense, or remained suspended.

These events caused differences between the PMS system and DOLAR\$, and indicated systemic problems that affect all granting agencies using PMS. Accordingly, it is critical that ETA initiate a reconciliation process for their PMS grants to ensure that each grant document recorded in DOLAR\$ accurately reflects a complete record of payments made to the grantee. It is also critical that ETA reconcile grant obligations to ensure that obligational authority released in PMS is accurate and in agreement with DOLAR\$.

As mentioned previously, differences between PMS and DOLAR\$ payment activity can also indicate that DOLAR\$ Funds with Treasury accounts are not in balance with the Treasury's TFS 6653. The OIG has reported in a separate finding that the Funds with Treasury amounts recorded in DOLAR\$ do not agree with the Treasury TFS 6653 for ETA's appropriations. The net

difference as of September 30, 2000 for ETA's appropriations is reported to be approximately \$13.5 million. These differences were calculated by management, but were not identified or corrected to the respective grant documents. Adjusting entries were recorded to correct the Funds with Treasury account, however, these adjustments were recorded in unrelated documents set up specifically for this purpose.

ETA is not in compliance with DLMS - 6 Chapter 7, paragraph 713 (m), which states:

The agency will reconcile the financial information in DHHS/PMS, DOLAR\$, Treasury, and any agency subsidiary systems which are used by the agency to manage its grant program. This reconciliation will be done by the agency that is responsible for the grant accounting process. All records must be reconciled at least quarterly (monthly reconciliations are recommended). The reconciliation will determine if the authorization (obligations) and disbursement amounts in DOLAR\$, Treasury, the agency's subsidiary system, and DHHS/PMS are in agreement. The reconciliation will also determine, if applicable, that cost and/or disbursement information that appears in DHHS/PMS, DOLAR\$ and the agency's subsidiary system are in agreement.

Recommendations

- 1. We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that ETA implements policies requiring routine reconciliations of grant transactions recorded in DOLAR\$ to those recorded in PMS. Specifically, procedures should have the following:**
 - S Reconciliations should analyze the differences identified on the Sync Reports and include an appropriate resolution of the differences noted for each document, and should be sufficiently documented.**
 - S Reconciliations should be performed at least quarterly for both obligations and payments, in compliance with the DLMS requirements. However, ETA should consider monthly reconciliations for payments, due to the volume of payment transactions.**
 - S Grant closeout procedures should include a determination that the documents are in balance with PMS (grants should not be closed if the documents reflect different payments on PMS than those reflected on DOLAR\$).**

- 2. We recommend that the Chief Financial Officer ensure that changes are made to DOLAR\$ and/or the Sync Report so that the report provides a more useful and reliable tool for management. Specifically, procedures should have the following:**
 - S The Sync Report should include DOLAR\$ documents with PMS activity that were not included in the initial PMS search process.**
 - S The Sync Report should not reflect differences for documents that have been archived from DOLAR\$ or for canceled appropriations. These PMS documents should be excluded from the report.**

S Grant documents should be not be archived prior to grant closure and reconciliation with PMS.

S The Sync Report should be modified to alleviate truncated numbers.

Management’s Response:

ETA management agrees that obligation and disbursement information in the Department of Labor Accounting and Related Systems (DOLAR\$) and the U.S. Department of Health and Human Services (DHHS), Payment Management System (PMS) should be reconciled on a regular basis. However, we question some of the analyses performed, as well as, some conclusions drawn by the OIG noted below:

Your chart reflecting differences between Payments in PMS and Payments in DOLAR\$ reflects a difference totaling \$686,283,001. If this were correct, ETA would have differences in its Fund Balance With Treasury totaling hundreds of millions of dollars, which is not the case.

While the OIG concurs that there are issues with DHHS SYNC Report which could explain a significant amount of the differences, the OIG summarization does not appear to have factored in those issues, such as (1) DOLAR\$ information is as of the last day of the month while the DHHS information is as of the 22nd of each month, thereby causing timing differences in the DHHS SYNC Report and (2) the DHHS SYNC report omits the DOLAR\$ information, when all the DOLAR\$ footprint elements (Document Type, Document Number, Fiscal Year, Responsibility Center Code (RCC), and Object Class) do not match with the DHHS footprint elements - meaning that a change in any of these footprint elements in the DOLAR\$ without the corresponding change in the PMS would cause the DHHS SYNC Report to show the cumulative amount of obligations and disbursements for a particular footprint as differences between the DOLAR\$ and PMS when the offsetting information in the DOLAR\$ is under a different footprint.

For example, we randomly selected and reviewed five of the DOLAR\$ footprints that the OIG claims are not in agreement with the PMS and found the following:

Document Number	PMS Disbursements	DOLAR\$ Disbursements	Difference	Comment
0221000000	\$3,351,350.00	\$1,805,112.62	\$1,546,237.38	\$1,546,237.38 disbursement posted in the DOLAR\$ on 11/01/00.
1721000A00	102,833,217.00	98,709,311.00	4,123,906.00	\$4,123,906.00 disbursement posted in the on DOLAR\$ 11/01/00.
375NF01000	4,575,000.00	5,549,552.51	(974,552.51)	Differences offset - the two offsetting footprints were included in the information provided by the OIG.
375NF01000	975,000.00	0.00	975,000.00	
375TR01000	14,365,000.00	11,930,000.00	2,435,000.00	\$2,435,000.00 disbursement posted in the DOLAR\$ on 11/01/00.
3921000A00	64,627,736.00	60,970,736.00	3,657,000.00	\$446,347.36 and \$3,210,652.64 disbursements posted in DOLAR\$ on 11/01/00.

As demonstrated above, we believe that the bulk of the differences noted by the OIG in the DHHS SYNC Report can be explained rationally given ample time to review the OIG's supporting information.

We are also concerned about the OIG assertion that "(a)n entire quarter of grant costs was recorded on PMS but not on DOLAR\$." The OIG is aware that the ETA does not utilize the PMS to capture and record costs. Rather ETA's grantees submit their cost reports directly to ETA and we record the costs either directly into DOLAR\$ or through our automated systems. The costs in the PMS are placeholders and are not related to actual cost reported by grantees.

As stated earlier, ETA agrees that DOLAR\$ and the HHS/PMS system should be in agreement and periodically reconciled to validate that they are in agreement. However, we also believe that bases on the above, the OIG should reevaluate its conclusions and recommendations in light of our comments.

OCFO Response:

As we set forth in our comments to the Funds with Treasury finding, the OCFO will work with the grant agencies and HHS to refine existing grant reports, as well as develop new reports to facilitate reconciling the Department's records with HHS' records. In addition, we will be reviewing existing business practices to determine how they may be changed to ensure HHS/PMS and DOLAR\$ are periodically reconciled.

OIG's Conclusion:

While the OCFO agrees with the need to reconcile PMS and DOLAR\$, it has not provided a specific plan of corrective action. ETA also agrees with the need to reconcile PMS and DOLAR\$, however, it disputes the OIG's audit conclusions and recommendations and implies that we have inappropriately analyzed Sync Report data.

Our audit conclusions are based on the fact that the two systems, PMS and DOLAR\$, are significantly out of sync because ETA is not reconciling the systems in accordance with DLMS requirements. As a result, there is an unacceptable risk that documents recorded in DOLAR\$ will not reflect a complete and accurate record of all payment transactions. It was not our intent to adjust the Sync Report data, nor would it be appropriate in most instances for us to do so. The differences identified by these reports indicate that the two systems are not in sync and that some corrective action is required by management (with the exception of timing differences). For example, the footprint deviations described in management's response indicate a situation where transactions recorded in PMS will not interface to DOLAR\$. Payment transactions for these documents will suspend in DOLAR\$ and must be manually adjusted and recorded by clearing the suspense account. This defeats the purpose of an electronic interface, delays posting of valid transactions, and is not an efficient use of resources. According to the OCFO, the PMS footprint should always correspond to the DOLAR\$ footprint, and any differences caused by footprint deviations should be included on the Sync Report until the appropriate corrections are made to either PMS or DOLAR\$.

These recommendations are **unresolved** pending submission of a specific corrective action plan for our review which identifies procedures and time frames for completion.

b. Obligations Inappropriately Moved to Subsequent Fiscal Year

CFO FINDINGS AND RECOMMENDATIONS

Our FY 2000 audit of ETA's grants and contracts included procedures to analyze differences reported on the Department's PMS Synchronization Reports (Sync Report), a series of reports designed to list differences between DOLAR\$ and PMS grant activity.

We analyzed selected documents which reflected large differences in payment activity, and noted several 1993 JTPA grants where a portion of the obligation, cost and payment activity had been moved from one fiscal year to the next. According to ETA, these grants were closed (the funds had expired) prior to the grantee drawing down their final payment. To close the grants, ETA reduced obligations and costs in DOLAR\$ to equal the total payments recorded (in DOLAR\$) at the time. When the grantee subsequently drew the funds from PMS (on the 1993 grant), ETA set up a 1994 grant obligation in DOLAR\$ so that the system would accept the draw down. As a result, PMS reflects the final payment as a FY 1993 obligation, cost and payment but DOLAR\$ reflects this as a FY 1994 obligation, cost and payment.

These events occurred early in October 1999. At this point, the FY 1993 funds were canceled and were not available for obligation or expenditure for any purpose. However, while the accounts were closed by ETA, the HHS/PMS payment system still showed that there were funds available for FY 1993 grants allowing the grantee to draw down the final payment. Because FY 1993 was closed, ETA established a FY 1994 obligation to absorb the additional payment made after grant closure, and recorded a corresponding cost entry. The documents noted are as follows:

	FY 1993	FY 1994
A489334E00	\$(2,290,292)	\$2,290,292
A279334A00	\$(1,410,523)	\$1,410,523
A489333Z00	\$(853,993)	\$ 853,993
Totals	\$(4,554,808)	\$4,554,808

These practices are not in compliance with U.S.C. Title 31 Chapter 15, which states the following:

Section 1552 (a). On September 30th of the 5th fiscal year after the period of availability for obligation of a fixed appropriation account ends, the account shall be closed and any remaining balance (whether obligated or unobligated) in the account shall be canceled and thereafter shall not be available for any purpose.

Section 1553 (b)(1). After the closing of an account under Section 1552(a) or 1555 of this title, obligations and adjustments to obligations that would have been properly chargeable to that account may be charged to any current appropriation account of the agency available for the same purpose.

Section 1553 (c)(1). In the case of a fixed appropriation account with respect to which the period of availability for obligation has ended, if an obligation of funds from that account to provide for funds for a program, project, or activity to cover amounts required for contract changes would cause the total amount of obligations from that appropriation during a fiscal year...to exceed \$4,000,000, the obligation may only be made if the obligation is approved by the head of the agency. . . .

While appropriation law allows adjustments to closed years (under certain circumstances), the adjustments must be made to the current year (in this case FY 2000). In addition since the amount

of the adjustment exceeded the \$4 million amount, approval from the head of the agency would have been required. ETA inappropriately made the adjustments to FY 1994 rather than FY 2000 and did not receive the proper approvals. In addition, ETA did not have the proper obligating documentation to support the FY 1994 obligation.

This situation was caused by the fact that grants were not appropriately or timely closed for FY 1993. ETA waited until the funds canceled and adjusted the documents so that the documents were in balance for obligations, costs and payments. These documents reflected more costs than payments, and actual grant costs were reduced in order to balance the grant. Had the close out process been performed more timely, ETA would have had the time to notify the grantees to draw-down the funds so that the grants would be in balance, rather than reducing costs and obligations to an incorrect amount.

Recommendation

- 1. We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that ETA establishes controls (including written policies and procedures) which will ensure that adjustments to obligations for closed accounts are posted only to current year appropriations and are properly authorized by the head of the agency when the amount of the adjustments exceeds the dollar threshold established in the regulations.**

Management's Response:

The ETA, OFAS is already considering actions to be taken to alleviate this concern, such as closing all DHHS sub-accounts in those appropriations that will cancel at fiscal year end before the fiscal year end to permit the review and closure of DOLAR\$ and DHHS information. A decision will be made on a course of action to be taken by the end of the third quarter FY 2001 and the action implemented during the fourth quarter FY 2001.

OIG's Conclusion:

This recommendation is **unresolved** pending management's submission of a specific corrective action plan for our review which identifies procedures and time frames for completion.

Status of Prior Year Findings and Recommendations

Grant Accounting Errors

During the FY 1999 audit (OIG Report No. 12-00-003-13-001), we identified significant errors in the recording of ETA's grants, primarily for the Job Training Partnership Act (JTPA) program. Our internal control sample included 27 JTPA grants. Of this number, 5 grants had no activity, 5 grants either had small errors or no cost reports provided, and the remaining 17 grants (63 percent of the sample) had material errors.

- We recommended 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).***

In FY 2000, we reviewed costs recorded by four regional offices as well as the national office. We were informed by the regional offices and by the national office that written procedures are not in place for the recording of costs, obligations or payments. The regional offices still had errors in recording cost and obligations, but these for the most part were limited in number.

We did note that the regional staff have not had adequate training in DOLAR\$. The regional staff felt that they did not have the necessary tools to detect errors on a timely basis and to review their grants. The main grant report provided to the regions is the Detailed Grant Report, but this is very voluminous since it includes all grants and contracts, not just those related to a particular region. None of the regional offices use this information because it is very difficult to use and too large to print.

The new EIMS cost system will have procedures for detecting errors in recorded cost information. Edit checks have been built into the system to detect errors timely and allow the users of EIMS to correct the information immediately; however, EIMS will not be fully implemented for all programs until FY 2002.

As mentioned in the finding "Delinquent Grantee Reporting," ETA has developed a report which identifies those grantees with large advances. Recently, these have been mailed to each regional office. Large advances normally will indicate that either cost reports are not being recorded timely, or that errors have been made in posting. This spreadsheet will assist the region in concentrating on the "red flag" documents which may have errors.

This recommendation remains **resolved and open**. Closure is dependent upon substantial implementation of the EIMS system, and for those programs utilizing DOLAR\$, upon adequate written policies and procedures for detecting and correcting potential grant errors. This would include timely review of the spreadsheet prepared by the national office and investigation of any documents for which large advances have been identified.

Management's Response:

As we have shared openly with the OIG, the ETA does review cost reports to minimize errors that may occur in recording cost in the Department of Labor Accounting and Related Systems (DOLAR\$). In addition, we believe that the data verification and edit checks developed in the Electronic Information Management System (EIMS) should alleviate any other concerns raised by the OIG. Accordingly, we see no valid reason for keeping this finding open.

OIG's Conclusion:

We concur with ETA that EIMS will alleviate certain input errors, once it is fully implemented and electronically interfaced to DOLAR\$. However, the current estimate for full implementation is FY 2002, and even then the system will not be used to record 100 percent of ETA's grants and contracts. With respect to review procedures, our site visits to the regional offices indicated that there is no formal or consistent process for reviewing grants for accuracy, or for investigating the "red flag" items provided by the National Office. This recommendation remains **resolved and open** pending the actions previously indicated.

Accounting for JTPA Transfers

In our FY 1999 audit (OIG Report No. 12-00-003-13-001), we determined that ETA was not monitoring grantee transfers of JTPA funds between programs, and that ETA did not account for JTPA transfers even though funds were moved between grants and appropriation accounts.

- *We recommended 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:*

S procedures to monitor transfers made by grantees, which ensure that transfers do not exceed the limitations established by law, and

S procedures to account for JTPA 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 has designed a new EIMS Cost system which will be in place by FY 2002 to record costs reported by grantees. A feature of this system allows the user to monitor for the transfers to ensure that the transfers are in balance and within the limitations placed in the regulations. The first recommendation is **resolved and open**. Closure is dependent upon substantial implementation of the EIMS system. ETA maintains that they will continue to record the costs using the appropriation for which the funds were originally obligated, rather than the appropriation where the funds were actually spent. Therefore, the second recommendation remains **unresolved**.

Management's Response:

The ETA has completed the design of a revised EIMS module to collect state cost reports for WIA programs --- the only programs to permit transfers between programs --- and began using this module for cost reporting with the reports due September 30, 2000. As indicated last year and again this year, the state reports provide summaries of transfers made at the sub-state level and do not provide sufficient information to monitor transfers. They are state level summaries of transfers made by sub-state areas. States are to monitor these transfers. The only way ETA could do what is recommended is to require that the states submit reports for each of the sub-state recipients to which they provide funding and this is not under consideration. Given this, we believe the first recommendation should be closed.

ETA management does not agree with the second recommendation that implies that sub-state transfers are transfers between appropriation line items and should be shown on the Federal books as such. ETA's policy was developed after consultation with the Departmental financial and budget officials and we believe it is the correct one. It calls for States to identify transfers and report the related expenditure of these transfers on the cost reports submitted for the program for which the monies were spent. We contend that by reporting costs and performance data on the same basis, measures of program effectiveness for each of the programs are maintained. The suggested alternative of treating sub-state transfers between the adult and dislocated worker programs as transfers within an appropriation would be unduly burdensome, requiring paperwork and Congressional notification each and every time one of the 600 sub-state areas elected to exercise this transfer authority during the three years the funds remain available for expenditure.

OIG's Conclusion:

We do not believe that monitoring transfers is beyond ETA's control or responsibility. As stated previously, ETA built monitoring controls into their new EIMS cost reporting system. At a presentation made to the OIG by ETA, we were told that these controls were put into place in order to prevent the types of transfers made in the past. These controls are the basis for resolution of the first recommendation. This recommendation remains **resolved and open** pending the OIG's review of the FY 2001 transfers recorded in the completed EIMS cost module (for WIA grants).

Regarding the second recommendation, ETA contends that cost and performance data should be reported on the same basis in order to measure program effectiveness. We concur. Our recommendation has been that ETA maintain the general ledger accounts to accurately reflect the costs incurred for each program, as spent by the grantee, so that the true costs of a program are accurately accounted for and measured. ETA accounts for the costs (and corresponding obligation) in a different program than that where the funds were actually spent. This distorts program cost measures since costs will be recorded in one program and the related measures in another. This recommendation is **unresolved**.

Delinquent Grantee Reporting

Our FY 1999 audit (OIG Report No. 12-00-003-13-001) disclosed delinquent reporting on the part of ETA's grantees and contractors. During our test of the year-end cost accrual, we performed an analysis of the Detail Grant Report as of September 30, 1999, and identified grants funded with FY 1994, FY 1995, and FY 1996 appropriations. The grantees' spending period for these grants had lapsed, and ETA should have received and recorded final cost reports by year end. Once final cost reports are received and recorded, there would be no need for an accrual entry.

- ***We recommended 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.***

There are no procedures in writing, however, ETA has submitted a memorandum to the ETA regional offices stressing the importance of obtaining delinquent cost reports. ETA also developed a report which shows the grantees with significant advance balances. Both regional office and national office staff are required to investigate the documents with significant advance balances. The reason for a large advance balance will normally be cost reports that have not been recorded, however, it can also indicate errors in posting or cash management problems. In addition, the new EIMS cost system has features to detect and report untimely reporting by grantees. This new system generates a report which identifies cost reports, by region, that have not been recorded. EIMS will not allow a grantee to record costs if the prior quarter has not been recorded. This system is presently being used for one program only. ETA expects to have the system for all programs between late FY 2001 and early FY 2002. The system has adequate written instructions on the system as well as edit features.

A review of FYs 1995, 1996 and 1997 shows that there are still old grants with no cost reports. For example, FY 1995 has 22 documents with no costs and advances of \$9 million, FY 1996 has 15 documents with no costs and advances of \$8 million, and FY 1997 has 31 documents with no

costs and advances of \$23 million. Other documents have costs recorded, but have outstanding advance balances. The advance balances are the result of either errors in recording costs or cost reports that have not been recorded. For example, there is one grantee with a balance of \$62 million in FY 1995 and one for \$25 million in FY 1996. FY 1995 has 51 documents with advance balances of \$81 million and FY 1996 has 38 documents with advance balances of 63 million. The Closeout Unit is in the process of obtaining these cost reports. Several large cost reports have been obtained and will be recorded in early FY 2001.

This recommendation is **resolved and open**. Closure is dependent on ETA obtaining the cost reports and recording the costs for FY 1995 through FY 1997, as well as substantial implementation of the EIMS cost system. In addition, ETA's policies and procedures for dealing with delinquent grantee reporting should be put in writing and submitted to all ETA offices.

Management's Response:

ETA management agrees with the need to monitor the timely submission of cost reports and address grantees habitually delinquent in submitting cost reports. The efforts described previously include developing exception reports in the EIMS identifying grantees that have not submitted required cost reports, working with the OCFO to furnish the ETA with the information needed to monitor cost reporting activities outside of the EIMS, and identifying those grantees that do not submit cost reports as "high risk." High risk grantees would be placed on a cost reimbursement basis rather than continue to draw down funds in advance.

OIG's Conclusion:

This recommendation remains **resolved and open**. Closure is dependent on ETA obtaining and recording missing cost reports from prior years and our assessment of the status of delinquent reports in FY 2001. ETA's policies and procedures for dealing with delinquent grantee reporting should be put in writing and submitted to all ETA offices.

Differences Between DOLAR\$ and DHHS/PMS Grant Information

Our FY 1999 audit (OIG Report 12-00-003-13-001) identified differences between grant transactions recorded in DOLAR\$ and those recorded in the Department of Health and Human Services' Payment Management System (PMS) for two agencies: BLS and OSHA. We determined that these differences went undetected because agencies were not reconciling obligation, cost, and payment transactions recorded in DHHS/PMS with those recorded in DOLAR\$, as required by DLMS - 6 Chapter 7, paragraph 713 (m). We made the following recommendations:

We recommend that the Chief Financial Officer ensures that BLS and OSHA implement policies and procedures that require:

- *routine reconciliations of grant transactions recorded in DOLAR\$ to those recorded in DHHS/PMS,*
- *payments to be reconciled on a monthly basis, in accordance with the SF 224 reporting process, and*

- *costs and obligations to be reconciled quarterly, in accordance with the grantees reporting cycle.*

In FY 2000, we noted improvements at both agencies in their reconciliation processes. In the case of BLS, the only significant differences in PMS and DOLAR\$ activity were for FY 1998 grant costs. BLS initiated detailed reconciliation procedures in FY 2000, but had not yet reconciled the 1998 grants as of year end. Subsequently, the agency researched these grants and discovered that one quarter of grant costs for the 1998 grants was never recorded in DOLAR\$, even though the costs were recorded in PMS. An adjusting entry was developed by the Agency to correct the amount recorded in DOLAR\$. Based on the improved reconciliation procedures and the actions taken by management, these recommendations are considered **closed** for BLS.

OSHA initiated reconciliation procedures in FY 2000, but these were primarily focused on the current year grants. When PMS converted to a new system in July, 2000, the agency stopped the reconciliation process due to difficulties encountered accessing information on the PMS system and due to problems encountered with the Sync Report. This resulted in unreconciled differences even for the current year grants. We concur with management that there were discrepancies with the Sync Report after July 2000. These are discussed in detail in a separate OIG finding presented in this report. The agency anticipates that all FY 1999, 2000 and 2001 grants will be reconciled timely during FY 2001. Grants prior to FY 1999 will be reconciled by staff involved in the grant closeout process. Based on the actions taken by management, these recommendations are **resolved and open**. Closure is dependent on completion of the reconciliation process in FY 2001.

Management's Response:

OSHA is once again receiving reliable Synchronization (SYNC) Reports outlining differences between the HHS/PMS system and DOLAR\$. We have updated our procedures to ensure that all FY 1999, 2000 and 2001 grants are reconciled monthly for authorizations, expenditures and disbursements. The SYNC Report will also be utilized as a tool in the close out process for grants prior to FY 1999. We have also instituted a monthly management meeting within the finance office to monitor the reconciliation and close out process.

OIG's Conclusion:

This recommendation remains **resolved and open**. Closure is dependent upon our review of management's reconciliations performed during FY 2001.

ETA Grant Adjustments

In FY 1997 and FY 1998 (OIG Report Nos. 12-98-002-13-001 and 12-99-002-13-001), we reported numerous adjustments in grant cost transactions with no notations in the grant files to explain the adjustments other than the GCMIS Project Status Reports, which showed that the adjustments had been entered. ETA was unable to explain some of these adjustments. There was no policy requiring proper support and authorization for adjustment transactions.

- *We recommended that the Acting Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that a policy is established requiring GCMIS adjustments to be adequately supported and authorized.*

We have not been provided with any written policies and procedures establishing the requirements that all adjustments be adequately supported and authorized.

In FY 2000, we continued to note adjustments to grants which did not have supporting documentation. However, these were primarily due to certain grants where a particular adjustment was recorded and reversed many times over. Some of these had as many as 50 recordings and reversals of the same transaction. While the net result of many of these adjustments equaled zero, the ETA staff at the regions were not aware as to why all of these adjustments were made and reversed many times over, and were unaware as to why the adjustment was made in the first place.

This recommendation is **resolved and open**. Closure is dependent on ETA developing written policies and procedures and that all adjustments be properly documented in accordance with the written policies and procedures.

Management's Response:

As we responded last year, the Grant Contract Management Information System (GCMIS) is no longer in use and, hence the point raised by the OIG should not be an issue. While we will continue to strengthen procedures, ETA management believes that all transaction recorded in the DOLAR\$ are adequately supported and authorized by appropriate officials, unless the OIG can offer documented examples which have occurred since the conversion to the DOLAR\$. Accordingly, we see no valid reason for keeping this finding open.

OIG's Conclusion:

This recommendation applies to whatever system is used as the "system of record" for recording grant adjustments. While this recommendation was issued at the time ETA used GCMIS for this purpose, the current process is to record adjustments directly to DOLAR\$. The OIG provided ETA with examples of adjustments that were not only unsupported, but were not in compliance with appropriation law (see separate OIG finding regarding obligations inappropriately moved to subsequent fiscal year). We conclude that this recommendation is valid and that further actions are necessary for closure. Accordingly, this recommendation remains **resolved and open** pending the development of written policies and procedures and our assessment of the approval and support maintained for adjusting entries in the FY 2001 audit.

Timeliness of Recording Grant and Contract Costs

ETA has not recorded grantee and contractor costs on a timely basis, a situation caused by late input of cost reports as well as delinquent grantee reporting. In FY 1995 (OIG Report No. 12-96-007-13-001), we made the following recommendation:

- *We recommended that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that the Division of Accounting records grantee and contractor cost reports timely.*

In FY 2000, ETA rigorously pursued recording costs reports, and improving the timeliness with which costs are recorded. These efforts resulted in recorded cost transactions of \$12.5 billion, versus \$3.1 billion in FY 1999. However, since EIMS is not yet complete, the current system for recording costs is a very time-consuming process and requires manual processing. ETA has to

retrieve the information recorded in EIMS, download the information and prepare the information in a readable format for recording in DOLAR\$. Once the information is ready for DOLAR\$ input, it is sent to the OCFO. While ETA improved the time required to record cost reports throughout FY 2000, in many cases costs were still not recorded timely. For example, we noted June 30 cost reports which were not recorded until the middle of October. These cost reports were due to ETA no later than August 15th, and should have been recorded by September 2000. The March 31 cost reports were due no later than May 15th, but were not recorded in DOLAR\$ until the middle of July.

ETA believes that it now has its system streamlined to the point where costs will be consistently recorded on a timely basis, given the cooperation of the OCFO. We concur, and change this recommendation from unresolved to **resolved and open**. Closure is dependent on the timely recording of costs during FY 2001. Timely basis is considered to be cost reports which are recorded within one month after the quarterly due date or, if earlier, the date received by ETA.

Management's Response:

As we have discussed with the OIG, the ETA is recording cost information in the DOLAR\$ as timely as possible, either directly to the DOLAR\$ or by providing electronic files to the OCFO to be loaded to the DOLAR\$. For FY 2001, the ETA and OCFO will agree upon a regular production schedule to ensure that files provided are recorded timely. Beyond that, the ETA can make no further improvements to recording cost reports in the month subsequent to when cost reports are due until the EIMS interfaces electronically with the DOLAR\$. In this regard, we anticipate that cost for most programs will be recorded electronically during FY 2001.

OIG's Conclusion:

Timeliness continued to be a problem throughout FY 2000. While improvements were made as the year progressed, additional actions are necessary for closure of this recommendation. Accordingly, this recommendation is **resolved and open** pending our assessment of the timeliness of recording costs during the FY 2001 audit.

Accounting for Accrued Costs

In FY 1994 (OIG Report No. 12-95-004-07-001), our audit stated that the books of account (in this case, accrued liabilities) should be maintained throughout the year in accordance with the accounting policies described in the notes to the financial statements, rather than at year end only. In prior years, ETA concurred and stated its intent to reprogram the cost estimation model (used to generate interim accruals) to reflect an improved accrual methodology. Accordingly, the recommendation was considered resolved with closure pending implementation of the planned actions. However, the estimation model was never adjusted to improve the accuracy of interim accruals, and with the conversion process, ETA discontinued the used of interim accruals altogether. As previously discussed, ETA continues to rely on the year-end accrual to correct understated grant and contract costs. We recommended that:

- *The Acting Chief Financial Officer ensures that departmental policies and procedures are implemented to require the books of account be maintained in accordance with the accounting policies described in the notes to the annual financial statements. Specific action should*

include incorporating the following items into the Department's routine accounting rather than at year end or for financial statement purposes only:

S *Refinement of accrued costs for ETA grants and reclassification of grant-related receivables and payables.*

The accrual for FY 2000 was recorded at the end of the fiscal year. A memorandum issued by the Chief Financial Officer stated that the accrual was to be recorded on a quarterly basis. However, due to the effort by ETA to record delinquent cost reports, it was not feasible to record an accurate accrual on an interim basis. The OCFO chose to record the accrual at year end. We have been informed that for FY 2001, that the accrual process will be recorded on a quarterly basis. In addition, the OCFO contractor also recommended that the accrual be recorded more frequently than once per year and that quarterly recording is preferable because project/program managers will have complete and timely information in order to make business decisions, review grant trends, and adjust for possible mistakes.

This recommendation is **resolved and open**. Closure is dependent on our review of the quarterly accruals in FY 2001.

Management's Response:

The OCFO will review ETA data in DOLAR\$ for each quarter of FY 2000 to calculate a grant cost to payment ratio. It will use this data to determine if the quarterly data for FY 2000 can reliably be used to calculate a quarterly accrual for FY 2001. OCFO will calculate a quarterly accrual for each quarter where a reliable factor can be determined. At a minimum, OCFO will use FY 2001 data to determine a ratio to be used to calculate a quarterly accrual for FY 2002.

OIG's Conclusion:

This recommendation remains **resolved and open** pending our review of the quarterly accruals in FY 2001.

JTPA Grant Closeout Process

In our FY 1998 audit (OIG Report No. 12-99-002-13-001), we reported that ETA's process for closing JTPA grants was not in compliance with applicable regulations (20 CFR 627) and Department policy (TEGL 6-91), and did not provide an adequate final accounting of all JTPA grants. We found that GCMIS cost information used to close certain grants was not based entirely on actual cost reports submitted by grantees, and that there was no reconciliation of GCMIS costs to the grantees' cost information. As a result, grants were closed without a final accounting from the grantees and refunds may have been due to DOL that were never identified in the Department's accounting records or pursued for collection. We also found that JTPA grants were not closed on a timely basis. We made the following recommendation:

- *We recommended that the Acting Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that JTPA grants are closed in accordance with the regulations and DOL policy. Specifically,*

- S grantees should receive formal notice of DOL's intent to close the grant, and follow up notices as required;*
- S grants should be closed on a timely basis as required (20 CFR 627.405 and 627.485) after the period for expenditure has expired;*
- S final cost information should be obtained from the grantee prior to closing the grant, and this information should be reconciled to DOL's records; and*
- S based on final cost information, refunds should be identified and pursued for collection in accordance with the regulations.*

In FY 2000, the closeout process was initiated for the FYs 1994, 1995 and 1996 JTPA grants. Our review of this process indicated that the Closeout Unit for the most part adhered to ETA's written procedures for closing JTPA grants. The States were formally notified of DOL's intent to close the grant and were required to submit final cost and payment information to ETA. This information was used to develop the appropriate entries for recording final grant activity and de-obligating any unspent funds. However, the JTPA closeout process remains untimely. As of September 30, 2000, there are still documents for which the closeout process is not yet completed, and several grants reflect advance balances for FYs 1995 through 1997. Based on the efforts made by the Closeout Unit, this finding is now considered **resolved and open**. Closure is dependent upon our review of a more timely process for closing the remaining JTPA grants in FY 2001.

Management's Response:

See Response Under ETA Grant Closeout Process.

OIG's Conclusion:

This recommendation remains **resolved and open**. Closure is dependent upon completion of the items indicated by management, and upon our review of the remaining JTPA grants closed in the FY 2001 audit.

ETA Grant Closeout Process

In our FY 1996 audit report (OIG Report No. 12-97-005-13-001), we recommended 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.*

To facilitate compliance with the regulatory requirements, the procedures should include, at a minimum:

- S A description of the responsibilities for the DOA Closeout Unit, DAA, Office of Job Corps, and ORM, all of which have a part in ETA's grant and contract closeout process.*

- S *A requirement that ORM and the Office of Job Corps monitor the regional offices' performance to ensure compliance with the closeout procedures described in ETO No. 1-91 and Job Corps Order No. 86-7.*

- S *A requirement that the DOA Closeout Unit notify the regional offices when the closeout process has been completed, as required under ETO No. 1-91 and Job Corps Order No. 86-7.*

- S *A consistent tracking system that all Closeout Specialists are required to maintain for their assigned cases.*

In FY 2000, the responsibility for closing ETA grants was moved to the Office of Grants and Contracts Management. This unit developed written policies and procedures, and reassigned closeout responsibilities among the closeout staff. In addition, they improved the tracking system and made significant efforts to ensure that the system represented a complete inventory of grants in the closeout process. Also, closeout staff reported to management on a monthly basis as to the new cases brought into the closeout process and the number of cases closed.

The status reports prepared by the Closeout Unit reflect the following:

Beginning Inventory at 1/21/00		2,353
New Cases added Since 1/21/00	<u>1,924</u>	
Cases Available for Closeout		4,277
Cases Closed from 1/21/00 Inventory		(2,090)
Cases Closed from "New Cases"		(377)
Ending Inventory left from Beginning (9/30/00)		263
Ending Inventory of "New Cases" (9/30/00)		1 ,547

The above reflects that the majority of the cases in the beginning inventory have been closed. However, not all of the FYs 1995, 1996 and 1997 have been closed out during the required time frame. In addition, we provided the Closeout Unit with an inventory of grants still on the Detail Grant Report system for FYs 1995 through 1997 and asked them to locate approximately 20 documents from our list. The majority of the documents were located and the largest dollar amounts were accounted for; however, approximately 25 percent of the documents were not included in the inventory. This indicates that the ending inventory may not be complete. The Closeout Unit must have a method of ensuring that the inventory includes all grants that should be in the closeout process.

We noted that the tracking system is presently on an Excel spreadsheet. A hard copy supporting the information shown above for the cases in the inventory was not maintained and once the Excel spreadsheet is updated, the spreadsheet for any particular month cannot be recreated. The spreadsheet is very large and printing the information is very time consuming.

This recommendation is **resolved and open**. Closure is dependent on continued reduction of the backlog of grants pending closure and the timely inclusion of new grants and contracts into the

closeout process, as defined in the regulations. To meet these requirements, the Closeout Unit should request from ETA, on a quarterly basis, a list of all grants and contracts for which the funds can no longer be expended by the grantee. This list will enable the Unit to detect those grants and contracts which should have been forwarded to the Closeout Unit and included in the closeout inventory. Listed grants which are not in the inventory should be investigated immediately. The Closeout Unit should also convert the tracking system to a database which can produce the various reports required by the Closeout Unit in a more efficient and timely manner.

Management's Response:

The ETA, Office of Grant and Contract Management (OGCM) agrees and offers the following corrective action plan for closeout activities in response to the OIG's findings and recommendations for FY 2000.

- S The ETA, OGCM will ensure that grantees and recipients will receive formal notice of DOL's intent to closeout the grant or contract within the prescribed time frames.
- S The ETA, OGCM will ensure that financial, performance and other required documents are submitted within 90 days after the end of the grant, with the exception of the formula grantees which will have to closeout their subgrantees prior to submitting the final financial documents.
- S The current ETA, OGCM closeout workload as of October 1, 2000 is 2,351. Of these 354 are JTPA formula grants, 1,219 are regional grants, 336 are Job Corps contracts and 442 are National program grants. We plan to close approximately 90% of this current backlog by the end of FY 2001.
- S All new workload cases for grants terminated during FY 2001 will be closed within the prescribed time frames as long there are no indirect costs or audit issues.
- S Based on final cost information, refunds due the Federal government will be identified and pursued for collection in accordance with established regulations.
- S The ETA, OGCM will develop clear directives describing the responsibilities of all ETA offices involved in the grant/contract closeout process, i.e., OGCM's Division of Resolution and Audit (DRA) and Division of Acquisition Assistance (DAA), Office of Job Corps and the Office of Regional Management.
- S The ETA'S OGCM and DRA will ensure that all pertinent parties are notified when the closeout process is completed.
- S The ETA will examine the existing tracking system of OGCM/DRA and make changes, as necessary.

OIG's Conclusion:

This recommendation remains **resolved and open**. Closure is dependent upon completion of the items indicated above, and upon our review of the closeout process during the FY 2001 audit.

Grants Accounting Procedures

In FY 1997 (OIG Report No. 12-98-002-13-001), we reported that high turnover of staff and lack of written grants accounting procedures for ETA hampered the effectiveness and efficiency of the grants accounting function. At the ETA regional offices, this resulted in inefficiencies, significant procedural errors, and/or over dependence on a single individual to ensure the integrity of the operation.

- ***We recommended that the Acting Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that the Office of Regional Management (ORM) and the Office of the Comptroller (OC) coordinate the development of standard written grants accounting procedures for use by the regional offices.***

This recommendation is unchanged. There are no written procedures in place as of FY 2000 and FY 2001. This recommendation remains **unresolved**.

Management's Response:

As part of the ETA's legislatively mandated reorganization, grant officer and the related accounting responsibilities were transferred from the Regional to National offices by October 2000. Where necessary, ETA management will develop standard written grants accounting procedures for the remaining ETA regional office grant accounting functions.

OIG's Conclusion:

This recommendation remains **unresolved**, pending a specific plan and time frame for the development of written procedures.

4. Wage and Hour's Back Wage System

Status of Prior Year Findings and Recommendations

FFMIA Compliance

In our FYs 1997, 1998, and 1999 audits, we discussed the Wage and Hour Division's (WHD) noncompliance with the *Federal Financial Management Improvement Act of 1996 (FFMIA)*. We determined that the back wage systems were not in substantial compliance with FFMIA. FFMIA requires that each agency implement and maintain financial management systems requirements as outlined in (1) OMB Circular A-127 and Joint Financial Management Improvement Program (JFMIP) *Core Financial System Requirements*, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger (SGL).

In FY 2000, management took steps to improve the financial accounting for back wages with the design and implementation of the BCDS 2000. Based on a review of the BCDS 2000 design documents and discussions with management, we conclude the system is substantially in compliance with the applicable accounting standards and the SGL. Nonetheless, in FY 2000, we found significant misstatements in both accounts receivable and cash balances resulting primarily

from incorrect or incomplete data input in the BCDS 2000. Of the 199 cases tested, 125 (62 percent) had one or more errors. Because of the significant number of cases reporting errors and our inability to fully evaluate the new system of financial controls, we are unable to ensure that financial information is being processed effectively and efficiently and, therefore, ultimately producing accurate and reliable information. Consequently, we have concluded that the back wage system is not in substantial compliance with the requirements of OMB Circular A-127.

In our FY 1997 audit report (OIG Report No. 12-98-002-13-001), we made five recommendations to the Acting Chief Financial Officer and the Assistant Secretary for Employment Standards for improving the back wage systems. The five recommendations and their current status are as follows:

- ***Implement properly designed internal controls which will provide management with reasonable assurance that the back wage financial management systems are operating effectively.***
- ***The back wage financial management systems should include the following features:***
 - ***A proper cutoff of accounting periods, with a limited period of time for correcting and recording transactions subsequent to the end of the period.***
 - ***The ability (and requirement) to close accounting periods.***
 - ***The ability to generate subsidiary reports using the same accounting cutoff and frequency as the general ledger control accounts, and controls which will ensure that totals on the subsidiary reports agree to totals posted to the general ledger.***
 - ***Controls to ensure that recorded information is accurate, reliable, timely and complete.***
 - ***The ability to edit, track and correct transactions, with proper authorization.***
- ***The back wage subsidiary systems used to support DOLAR\$ general ledger accounts should:***
 - ***Meet the requirements listed in previous back wage recommendation above (The back wage financial management system should include the following features...).***
 - ***Provide a complete and accurate report of the items comprising the ending balance in the general ledger accounts.***
 - ***Provide a complete and accurate report of the source transactions which comprise the general ledger balance, thus providing an audit trail.***
- ***The back wage systems should be maintained on a full accrual basis.***

Management agreed with the recommendations and planned a redesign of the Back Wage Collection and Disbursement System (BCDS). Specifically, the redesign would include updating the BCDS to ensure that it meets all applicable financial management and accounting standards. The redesigned BCDS would include effective internal controls and operating procedures. On October 2, 2000, management implemented the new BCDS referred to as the BCDS 2000 in all five WHD regions.

During the FY 2000 audit field work in three regions, we observed and made inquiries to determine whether the BCDS 2000 was fully implemented and properly functioning. Results indicated that certain system functions, such as back wage processing, reporting, and ticklers, were not fully implemented and properly functioning and the new system data base was incomplete because data from the old BCDS did not convert to BCDS 2000. We noted in all three regions that numerous system reports were unavailable and cash reconciliation processes were not in place. Additionally, we received a series of BCDS 2000 reports which were determined to be inaccurate and incomplete. As of January 8, 2001, the backwage accounts receivable and allowance for doubtful account balances for FY 2000 activity had not been entered into DOLAR\$ due to the inability of the BCDS 2000 to produce accurate reports. System updates are being developed to address numerous problems in the system's functions, as well as add required features, such as Debt Collection Improvement Act (DCIA) tickler capabilities.

OIG recognizes management's commitment to improving the financial accounting for back wages as evidenced by the design and initial implementation of the BCDS 2000. Therefore, the status of these recommendations is changed from **unresolved** to **resolved and open**. However, the BCDS 2000 is not currently fully functioning to allow for a full and complete evaluation of the improvements in the system. Closure of the recommendations is dependent on whether the BCDS 2000 is fully functional during FY 2001, including evidence that system operations meet all applicable financial management and accounting standards.

Management's Response:

Wage and Hour disbursement offices can now record receipts, issue checks, print WH-60s, issue demand letters, and determine which cases are eligible for debt collection. A debt-collection function was added to the original BCDS 2000 system and released to users on November 15th. We will continue to add functions and make additional improvements to the BCDS system on a quarterly basis. BCDS Version 1.2 is scheduled for release in March, and includes a write-off capability and a transfer function that will automatically cover funds for unlocated employees to Treasury. (This process is currently done manually by Wage and Hour and ESA/OMAP staff.)

Wage and Hour staff are working with OMAP to develop reconciliation procedures for the total amount of financial data available from the BCDS 2000 system. System reports are being developed on an expedited production schedule and will be released as part of BCDS 2000 as soon as possible. In the interim, users will be able to create customized reports from BCDS with the same reporting tool (Wage and Hour Investigative Support and Reporting Database (WHISARD) Reports) that is currently used to extract data from the WHISARD.

OIG's Conclusion:

These recommendations remain **resolved and open**. Closure of the recommendations is dependent on verification that the BCDS 2000 is fully functional, including evidence that system operations meet all applicable financial management and accounting standards.

- ***The back wage BCDS system should record the full amount due from an employer on the date the claim becomes enforceable, in accordance with SFFAS.***

In prior years, WHD did not have effective procedures in place to identify and record an account receivable when a claim was determined. During FY 2000, we continued to detect misstatements

primarily resulting from incorrect or incomplete data input in the BCDS 2000. We found that agreed-to-pay amounts are recorded inaccurately or, in some cases, not recorded at all, duplicate cases are set up in the system as a result of recording cases based on cash receipts rather than the total accounts receivable balance, and invalid cases and cases lacking support documentation (e.g., unlocated files or evidence of employer payments) exist.

Once the BCDS 2000 system is fully implemented, including its oversight features and enhanced policies, a reduction in the number of errors detected from audit tests should occur. Specifically, new guidelines require an investigator or district office manager to notify the regional office as soon as it has been determined that a case is going to become a BCDS case. Accordingly, this policy would allow the regional BCDS staff to record an account receivable on the date when a claim is determined, rather than when a check is received. Additionally, the system will contain enhanced controls over confirmations of direct payments from employers to employees so as to ensure adherence to the WHD's specific guidance on documentation of employer payments as stated in the Field Operations Handbook (FOH) Part 53c09.

OIG recognizes management's commitment to improving the financial accounting for back wages as evidenced by the design and initial implementation of the BCDS 2000. Therefore, the status of this recommendation is changed from **unresolved** to **resolved and open**. However, the BCDS 2000 is not currently fully functioning to allow for a full and complete evaluation of the improvements in the system. Closure of the recommendation is dependent on whether the BCDS 2000 is fully functional during FY 2001, including evidence that system operations meet all applicable financial management and accounting standards.

Management's Response:

Past audits of BCDS indicated that Wage and Hour did not have sufficient evidence of payments to employees. This was addressed in BCDS 2000 by the implementation of new Back Wage Follow-up Procedures that require offices to verify payment in any case where the FOH requires the issuance of a receipt. Under these new procedures, payment may be verified through copies of cancelled checks, signed receipt forms or WH-59 form letters sent to employees to confirm payment.

Wage and Hour District Offices (DOs) are now required to annotate the Summary of Unpaid Wages to indicate the method of verification. WHISARD will be revised to allow DOs to print these annotated summaries so that they may be included in DO or BCDS files.

Wage and Hour has strongly affirmed with regional and district managers the need to timely transfer debts and money for unlocated employees. We have also prepared training in Back Wage Follow-up procedures for support staff and managers in each region. Job aids for the follow-up process, such as flowcharts and step-by-step instructions, are being issued to assist staff in learning the new system processes.

OIG's Conclusion:

This recommendation remains **resolved and open**. Closure of this recommendation is dependent on verification that the BCDS 2000 is fully functional, including evidence that system operations meet all applicable financial management and accounting standards.

Back Wage Accounts

In our FY 1997 audit (OIG Report No. 12-98-002-13-001), we recommended that the Acting Chief Financial Officer and the Assistant Secretary for Employment Standards:

- ***Require the Wage and Hour Division (WH) to improve internal controls over the operation of BCDS as follows:***
 - ***Intensify the existing case file review by issuing more specific instructions to reviewers and requiring follow-up procedures to ensure that such reviews are effective and performed on a timely basis. Specifically, case files should be periodically reviewed to verify that the agreed-to-pay amount, cash receipts and cash disbursements activities are accurately recorded in BCDS.***
 - ***Improve supervision of back wage staff and hold appropriate managers accountable for improving the reliability of information recorded in BCDS.***
 - ***Insist that regional offices adhere to National Office policy.***

In prior years, management agreed with this recommendation and took action to improve regional operations. However, as a result of our audits, we concluded that the corrective actions taken by management were not effective. Management agreed that further improvements were needed. In FY 2000, management began reviewing all cases in the BCDS to correct cases with misstated accounts receivable and cash balances which resulted from incorrect or incomplete data. The purpose of this review was to improve the accuracy of the reported amounts and to provide accurate beginning balances for cases converted into the BCDS 2000.

In FY 2000, we tested cases recorded in the BCDS 2000 in the San Francisco, Philadelphia, and Atlanta regions which had been reviewed and corrected. We found misstatements in both accounts receivable and cash balances caused primarily by incorrect or incomplete data input in the BCDS 2000. Of the 199 cases tested, 125 (63 percent) had one or more errors. Similar to results of prior year testing, errors included: (1) agreed-to-pay amounts recorded inaccurately or, in some cases, not recorded at all; (2) duplicate cases set up in the system; (3) cash receipts and cash disbursements not recorded timely or accurately in the BCDS; (4) unlocated case files; and (5) exceptions in areas of file maintenance, cash collection, disbursement activities and reporting.

OIG recognizes management's commitment to improving the financial accounting of back wages as demonstrated through the design and development of the BCDS 2000 and enhanced policies implemented. As a result, the status of this recommendation is changed from **unresolved** to **resolved and open**. Closure of the recommendation is dependent on whether the BCDS 2000 is fully functional during FY 2001, including evidence that system operations meet all applicable financial management and accounting standards.

Management's Response:

Wage and Hour has established procedures for identifying initial receivable errors in a case before it is registered in BCDS 2000. The DO uses the annotated Summary of Back Wages to confirm by code all of the back wages due in a case where there is insufficient evidence of payment. The DO then flags a case as available for the BCDS 2000 system, and it also provides hard copy

documents to establish the BCDS case file in the Regional Office. A checklist has been developed for confirming that all documents needed to support the case's receivable balance are included in the back wage file.

Regional Back Wage Specialists verify amounts due at the time that they receive the documents and establish the case file at the Regional Office. If the amounts do not match, the case is returned to the DO for further action.

Wage and Hour is currently developing an on-going review process similar to the one in the CMP system. A number of cases in the BCDS system will be reviewed each month for accuracy of the receipts and disbursements.

OIG's Conclusion:

This recommendation remains **resolved and open**. Closure of this recommendation is dependent on the review and correction of errors in the existing balances reported in BCDS 2000 and also, verification that the BCDS 2000 is fully functional, including evidence that system operations meet all applicable financial management and accounting standards.

- ***Develop and implement effective internal controls which will prevent cash disbursements in excess of the available cash balance.***

Management agreed with this recommendation and indicates the BCDS 2000 contains the necessary controls that will prevent cash disbursements in excess of the available cash balance. OIG recognizes management's commitment to improving the financial accounting of back wages. Therefore, the status of this recommendation is changed from **unresolved** to **resolved and open**. However, the BCDS 2000 is not currently fully functioning to allow for a full and complete evaluation of the improvements in the system. Closure of the recommendation is dependent on whether the BCDS 2000 is fully functional during FY 2001, including evidence that system operations meet all applicable financial management and accounting standards.

Management's Response:

The BCDS 2000 system is a double entry accounting system that does not allow disbursement in excess of available funds.

OIG's Conclusion:

This recommendation remains **resolved and open**. Closure of this recommendation is dependent on verification that the BCDS 2000 is fully functional, including evidence that system controls are in place to ensure that disbursements are not allowed to exceed available funds.

In our FY 1993 audit (OIG Report No. 12-94-012-07-001), we recommended the following:

- ***Differences between the Back Wage regional (BCDS) and national (Back Wage Tracking System (BTS)) office systems should be reconciled and either or both systems should be adjusted accordingly so that complete, accurate, and documented balances by employer agree with the related control accounts in DOLAR\$.***

A full and complete reconciliation of the long-outstanding differences between the two systems has not been addressed. WHD implemented the BCDS 2000 on October 2, 2000 and posted receipts for the month of September into the newly redesigned system. Data integrity problems surrounding the conversion to the new system resulted in the failure of the system to produce adequate reports for all cases for the year ended September 30, 2000. As a result, we are unable to determine the current year difference between the BTS and BCDS. As of September 30, 1999 the cumulative unreconciled difference between the two systems was \$5,605,590.

Management implemented procedures requiring regional and national office staff to perform monthly comparisons of receipts and disbursements recorded in the BCDS with those amounts recorded in the BTS. Observations and inquiries at both the regional and national offices and a review of monthly cash reconciliations performed by Office of Management Administration and Planning (OMAP) reveal that monthly reconciliations between the BCDS and BTS are being adequately performed. However, the cumulative unreconciled difference between the BTS and BCDS remains.

This recommendation remains **unresolved** pending receipt and review of management's detailed plan for full and complete reconciliation of the cumulative unreconciled difference as of September 30, 2000 between BTS and BCDS.

Management's Response:

As part of Wage and Hour's commitment to accuracy in the new system, NO and RO staff initially audited the 6000+ BCDS case files in order to identify and correct as many problems as possible before the conversion began. Since then, we have continued to resolve basic data issues and to correct totals in "problem" cases in order to accurately enter them in BCDS 2000. This adjustment process has taken longer than expected since the new system is designed to prevent imbalances between case details and totals. As soon as this process is completed, we will validate the receivable and payable amounts by comparing the electronic records in BCDS 2000 with those on paper for each case.

OIG's Conclusion:

This recommendation is changed to **resolved and open**. Closure of the recommendation is dependent on the review and correction of errors in the existing balances reported in BCDS 2000 and also, verification that the BCDS 2000 is fully functional, including evidence that system operations meet all applicable financial management and accounting standards.

- ***Procedures should be developed and implemented to ensure that the CMP system and BTS remain up-to-date and in agreement with the control accounts in DOLAR\$.***

The OIG recognizes that the need for the BTS should be eliminated upon implementation of the BCDS 2000 functions, oversight features and enhanced policies. We understand that a fully implemented BCDS 2000 should reconcile directly to control accounts in DOLAR\$. However comprehensive detailed procedures addressing the long-outstanding reconciliation of differences between the two systems have not been established.

The recommendation remains **unresolved** pending receipt and review of management's detailed procedures for the full and complete reconciliation of DOLAR\$, BTS and BCDS 2000.

Management's Response:

It is our belief that implementation of the measures discussed above will give Wage and Hour accurate balances to use in reconciling any differences among BTS, BCDS 2000 and DOLAR\$.

OIG's Conclusion:

This recommendation is changed to **resolved and open**. Closure of the recommendation is dependent on the review and correction of errors in the existing balances reported in BCDS 2000 and also, verification that the BCDS 2000 is fully functional, including evidence that system operations meet all applicable financial management and accounting standards.

5. Wage and Hour's Civil Monetary Penalties System

Status of Prior Year Findings and Recommendations

FFMIA Compliance

In our FYs 1997, 1998, and 1999 audits, we discussed the Wage and Hour Division's (WHD) noncompliance with the *Federal Financial Management Improvement Act of 1996 (FFMIA)*. We determined that the CMP system was not in substantial compliance with FFMIA. FFMIA requires that each agency implement and maintain financial management systems requirements as outlined in (1) OMB Circular A-127 and Joint Financial Management Improvement Program (JFMIP) *Core Financial System Requirements*, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger (SGL).

In FY 2000, we noted improvements in the documentation supporting computed assessments and accounts receivable balances. However, system weaknesses continue to exist in the areas of transaction cutoff, the accounting period close out process and effective controls ensuring that recorded information is accurate, complete and therefore reliable. Furthermore, there has been a lack of effective implementation of applicable accounting standards with respect to the recording of cases as of the date the claim became valid and enforceable pursuant to SFFAS 7 and the proper recording of interest charges. Consequently, we have concluded that the CMP system is not in substantial compliance with the requirements of OMB Circular A-127 and applicable Federal accounting standards.

The current status of the four FY 1997 recommendations are as follows:

- ***Implement properly designed internal controls which will provide management with reasonable assurance that the CMP financial management systems are operating effectively.***

In FY 2000, we tested 95 accounts receivable and 134 revenue balances in the CMP system in the Philadelphia, Dallas and Chicago regions. Of 229 balances tested, 58 balances were tested for both accounts receivable and revenue. Of the 171 cases tested, 124 or 73 percent of the cases contained one or more errors. The following chart denotes error types and a comparison of errors between FY 1999 and FY 2000.

Percent of Errors
Percent

CFO FINDINGS AND RECOMMENDATIONS

<u>Error Descriptions</u>		<u>FY</u> <u>1999</u>	<u>FY</u> <u>2000</u>	<u>(Decrease)</u> <u>Increase</u>
Accounts receivable not recorded timely	39%	64%	25%	
Data recorded in the system not accurate	31%	73%	43%	
Lack of adequate support for account receivable	31%	13%	(18%)	
Interest and late fees not recorded correctly	13%	29%	16%	
Contested cases recorded in the system	2%	3%	1%	

Improvements in documentation supporting computed assessments and accounts receivable balances were noted; however, errors in the recorded CMP accounts receivable balances continue to occur. These errors resulted primarily from incorrect or incomplete data in the system, as well as the lack of timeliness of recording accounts receivable. Specifically, these errors directly result from the lack of district offices adherence to WHD policies and system procedures and regional office oversight of recorded data.

OIG recognizes management's commitment to developing a CMP system that is in full compliance with federal financial accounting and applicable standards. However, management has not effectively strengthened controls over the integrity of data input into the system nor improved operations sufficiently to close this recommendation. Additional district and regional office training, as well as steps to improve the regional office oversight are necessary to improve the accuracy and timeliness of the recording of accounts receivable balances. Therefore, this recommendation remains **resolved and open**. Closure is dependent on the review of all anticipated changes to the CMP automated and manual systems, including the weaknesses in data input and oversight controls at the district and regional offices, and the successful outcome of the FY 2001 audit.

Management's Response:

In the ROCMP system, the Effective Date is the date on which the debt is due and payable. This date is calculated by the system as the latest of the (1) Final Order Date, (2) Return Receipt Date+30days or (3) Date Settlement Due. During the initial phase of the audit process, the auditors apparently misunderstood the definition of the Effective Date when they equated it with the Final Order Date (date a debt becomes legally enforceable.) Wage and Hour then revised the Wage and Hour reports to provide the option of running them on the Final Order Date instead of the Effective Date, which resulted in the correction or elimination of "incorrect" Effective Dates.

To ensure that cases are batched in a timely manner, each District Office has a "Projected Final Order" letter date on its Tickler Report. This date corresponds to the batch date for a case where the exception period expires without payment or timely exception. Also, each District Office is required to report each month to the RO on the status of all pending cases.

All District Office support staff received training on the new batching policy during March and April 2000.

It should also be noted that, if the normal 10-day grace period had been applied during the initial audits, the error rate for timely reporting of debts would have been significantly reduced.

OIG's Conclusion:

Analysis of the revised reports referred to in management's response and detailed testing conducted in three regions did not indicate a reduction in the number of errors in this area.

A 10-day grace period has never been applied, rather a 7-day grace period has been a consistent standard applied to the batching of cases into the CMPS. However, the date the system should establish as the effective date has no grace period, as the effective date is an actual date of an event. Management recognizes this concept through their efforts to clearly indicate an "effective date" in the Final Order letter sent to the employer.

This recommendation remains **resolved and open**. Closure of the recommendation is dependent on our review of all anticipated changes to the CMP automated and manual systems, including the weaknesses in data input and oversight controls at the district and regional offices, and the successful outcome of the FY 2001 audit.

- *The CMP financial management systems should include the following features:*
 - *A proper cutoff of accounting periods, with a limited period of time for correcting and recording transactions subsequent to the end of the period.*
 - *The ability (and requirement) to close accounting periods.*
 - *The ability to generate subsidiary reports using the same accounting cutoff and frequency as the general ledger control accounts.*
 - *Controls which will ensure that totals on the subsidiary reports agree to totals posted to the general ledger. Specifically, WHD should develop and implement procedures for reconciling cash receipts recorded in the CMP system with those recorded at the National Office into the DOLAR\$ general ledger.*
 - *Controls to ensure that recorded information is accurate, reliable, timely and complete.*
- *The CMP subsidiary systems used to support DOLAR\$ general ledger accounts should:*
 - *Meet the requirements listed in previous CMP recommendation above (The CMP financial management system should include the following features . . .).*
 - *Provide a complete and accurate report of the source transactions which comprise the general ledger balance, thus providing an audit trail.*

In FY 2000, we found that controls necessary to ensure that recorded information is accurate, reliable, timely, and complete have not been successfully implemented. While improvements in documentation supporting computed assessments and accounts receivable balances are evident, errors in the recorded CMP accounts receivable balances continue to occur. Errors are caused primarily by incorrect or incomplete data in the system, as well as the lack of timeliness of recording accounts receivable.

Additionally, we detected errors in interest and late fees recorded as a result of the following: 1) lump sum interest amounts were added to initial account balance setups rather than accruing with the passage of time; 2) incorrect data included in the system during the account setups resulted in interest and penalty amounts not being recorded correctly; 3) court judgments which included

clauses for interest to be charged for untimely and or default conditions were not enforced, although authorized; and 4) system calculation errors occurred due to computations made from the use of incompatible programming languages used in the system.

Although management has made progress toward the full implementation of a system in accordance with required federal financial accounting standards, management has not effectively strengthened controls over the integrity of data input into the system. Therefore, these recommendations remain **resolved and open**. Closure is dependent on the review of all anticipated changes to the CMP automated and manual systems and the successful outcome of the FY 2001 audit.

Management's Response:

Although the ROCMP system properly calculates regular interest on the principle and penalty interest on the balance, the language used in the District Office CMP letters implies that both types of interest are computed on the balance due. These letters are being re-written to accurately reflect our actual practice, and these revisions will be issued as soon as possible.

We are in the process of redesigning the NO and RO portions of the CMP system as Delphi applications. This new system will be released to users on July 30, 2001. With CMP then on the same platform as other Wage and Hour applications, installment and lump sum interest will be determined on an accrual basis. As part of the redesign effort, Wage and Hour is working closely with staff from oversight and financial management offices within the Department to ensure that existing "front-loaded" cases are properly transferred to the new CMP 2001 system. The new CMP system will also have the flexibility to allow ROCMP to more closely adhere to the special provisions of court orders.

The procedures that we are implementing to reduce errors related to the recording of debts and to Final Order dates are discussed above.

OIG's Conclusion:

These recommendations remain **resolved and open**. Closure is dependent on our review of all anticipated changes to the CMP automated and manual systems and the successful outcome of the FY 2001 audit.

- ***The CMP system should record only those cases which are not in contested status, and represent a valid, legally enforceable claim in accordance with SFFAS. This policy should be communicated to and enforced at all regional offices.***

In FY 2000, management agreed to change the policy and related operational procedures for recording accounts receivable. Specifically, management initiated changes in the automated CMP system. Changes included updating assessment and final order letters in order to establish the specific date of the expiration of an employer's appeal rights. Additionally, management took steps to ensure WHD district offices record accounts receivable in the system in a more timely manner. Guidance was provided in an *updated* version of the CMP User Manual and regional and district office training was conducted in February and March 2000.

In FY 2000, tests in three of the five WHD regions found that 3 percent of the cases were contested cases and, therefore, not valid and enforceable in accordance with SFFAS 7. Additionally, of the 171 cases tested, 124 (73 percent) were not recorded as of the date the claim became valid and enforceable in accordance with SFFAS 7. The errors reflect cases recorded to the CMP system continue to require training of district personnel and review and oversight at the regional office prior to being recorded as an account receivable.

Based on evidence that contested/invalid cases continue to be recorded in the CMP system and the recording of valid accounts receivable balances needs to be improved, this recommendation remains **resolved and open**. Closure is dependent on the review of all anticipated changes to the CMP automated and manual systems and the successful outcome of the FY 2001 audit.

Management's Response:

Although Wage and Hour has a clearly defined policy against recording unenforceable or contested cases in the CMP system, exceptions have been made in those instances where an employer pays a portion of the CMP and contests the remainder. In these circumstances, the money is deposited and the case remains "dormant" in the system until the matter is resolved. The new CMP 2001 will permit a portion of the debt to be paid and entered in the system, while excluding the contested portion of the assessment from Accounts Receivable.

It appears that the recording errors mentioned in the audit findings were mainly confined to the operations of one Regional Office. It should also be noted that these cases were identified by Wage and Hour and promptly deleted from the system before the start of the audit.

We have re-issued our policy and instructions concerning the recording of contested cases. Additional training is currently being conducted with the staff of the Regional Office involved, and we will assist that office in reallocating resources to ensure that all CMP actions are completed properly and in a timely manner.

OIG's Conclusion:

This recommendation remains **resolved and open**. Closure is dependent on our review of all anticipated changes to the CMP automated and manual systems and the successful outcome of the FY 2001 audit.

In our FY 1993 audit (OIG Report No. 12-94-012-07-001), we recommended the following:

- *The Wage and Hour Division should complete its CMP tracking system so that it can function as a subsidiary system for CMP assessments, collections, adjustments, and related receivable balance on a case-by-case basis.*
- *After the CMP subsidiary system in the first CMP recommendation is implemented, beginning balances should be reconstructed on a case-by-case basis and adjustments to the subsidiary system and DOLAR\$ should be recorded as necessary so that the new subsidiary system will begin with complete, accurate, documented, case-by-case balances that agree with the related control accounts in DOLAR\$.*

- ***Procedures should be developed and implemented to ensure that the CMP system and Back Wage Tracking System (BTS) remain up-to-date and in agreement with the control accounts in DOLAR\$.***

In FY 2000, as discussed previously, we found misstated account receivable and/or revenue balances. As in prior years, we continue to detect errors in the accuracy of recording of interest and penalties. Errors also continue to be made with respect to the date the accounts receivable became valid and enforceable in accordance with SFFAS 7. The errors affect the integrity of the data within the system and, therefore, the usefulness of the CMP system reports for management reliance. Therefore, the lack of overall accuracy of the reported accounts receivable balance mandates further improvements in the recording of accounts receivable.

Based on the lack improvements in the recording of accounts receivable balances, these recommendations remain **resolved and open**. Closure is dependent on the review of all anticipated changes to the CMP automated and manual systems and the successful outcome of the FY 2001 audit.

Management's Response:

On Monday, January 22, 2001, Deputy Administrator Tom Markey issued the following E-Mail to all Regional Administrators, Deputy Regional Administrators, and District Directors:

"Attached is an operations memorandum to all District Directors from Jill Cousert, the National CMP and BCDS Coordinator. This memorandum describes changes in the handling of CMP cases. The OIG continues to cite District Offices for failure to batch CMP cases timely and to enter correct Final Order Dates. This process requires scrupulous attention to detail by District Directors. The dates must be precise--close enough is not good enough. Until District Offices take this seriously and show improvement, Wage and Hour will continue to be subject to criticism and oversight by the OIG and the CFO. I appreciate the fact that RAs, Deputies and RO managers are increasing their supervision and oversight of both the CMP and BCDS systems. However, until District Directors take personal responsibility for the accuracy of the cases prepared in their offices, we will continue to have an unacceptable error rate. We will discuss this issue in conference calls and Executive Team meetings until the problem is solved."

To enforce this commitment, Regional managers have been trained to run specific tickler reports on individual District Offices in order to track the status of pending actions. In addition, Wage and Hour has requested enhancements to the WHISARD system to send Alert e-mails to Deputy Regional Administrators and District Directors if the Tickler Report has not been run for 5 days by an office.

On-going review of all cases that are batched to the RO CMP system will continue with greater attention paid to the accurate recording of Final Order Dates and timely batching. District Offices with high error rates will receive additional appropriate training in at Manager and Support Staff conferences.

OIG's Conclusion:

These recommendations remain **resolved and open**. Closure is dependent on our review of all anticipated changes to the CMP automated and manual systems and the successful outcome of the FY 2001 audit.

6. FECA Program

Status of Prior Year Findings and Recommendations

Chargeback Accounting/Reconciliation with Treasury

In our FY 1994 audit (OIG Report No. 12-95-004-07-001), we noted that the transactions per the Division of Federal Employees' Compensation (DFEC) chargeback system and the Statement of Transactions (SF 224) were not reconciled. Requisite adjustments made from FY 1994 through FY 2000 have ranged from \$3 million to \$11 million. Additionally, a complete reconciliation between the accounting systems and the Treasury SF-224 reports is not performed. We made the following recommendations:

- *We recommended the Chief Financial Officer ensures that written procedures are implemented for:*
 - S The timely posting of data in the district offices to the Chargeback and Fund Control Systems.*
 - S Management monitoring of the data posted by the district offices by the production of monthly reports that compare district office Fund Control System and Chargeback system data for check cancellations and cash receipts.*
- *We recommended the Chief Financial Officer ensures that the FECA Division reconciles Funds with Treasury differences between DOLAR\$ and Treasury records, identifies the difference by ALC, and appropriately resolves these differences.*

The Office of Workers' Compensation Programs (OWCP), DFEC does not employ a process whereby the disbursing databases (ACPS and Bill Payment System (BPS)), are reconciled to the billing database, which is the Chargeback System. Further, neither the Chargeback system nor the ACPS and BPS are reconciled to the Treasury SF-224 reports. The DFEC disburses more than \$1.9 billion annually and not all of the cash activities as maintained in the disbursing databases are reconciled with Treasury.

Management has contended that the explanation of the unreconciled differences in past years was due to credits not being posted in the district offices timely. While the district offices are deficient in posting credits timely, management has not proven this to be the reason for the differences. Also, management has not investigated the differences to the extent adjustments for the differences could be posted to the proper ALCs.

A report is not generated from ACPS and BPS and provided to the district offices which details credits, deposits, and cancellations. As such, the district offices cannot verify that transactions

processed by Treasury, per the SF-224 reports, agree to transactions processed and recorded in the ACPS, BPS, and the Chargeback System.

The amount contained in the Chargeback system has varied from the Treasury SF-224 reports from \$3 million to as much as \$11 million in recent years. The unreconciled differences have not been investigated to determine where the differences originated and their proper resolution. The Chargeback system varied from the Treasury SF-224 reports by \$5.1 million during FY 2000.

Management responded last year that a report was being refined that would resolve these recommendations. The report will only assist in resolving this recommendation if it is in sufficient detail for the district offices to determine that all check cancellations, cash receipts, and cash deposits have been properly input into ACPS and BPS when reconciled to Treasury information. Policies and procedures must then be put in to place which requires that district offices perform a reconciliation process whereby all transactions reported by Treasury in a given month are properly recorded in the ACPS and BPS, or if differences occur, the differences must be investigated and properly resolved.

These recommendations remain **unresolved**. Resolution is dependent on development and implementation of a process that requires each of the district offices to reconcile the ACPS and BPS to the Treasury SF-224s on a monthly basis, which in turn would be reconciled by the National Office to the chargeback system and DOLAR\$.

Management's Response:

In our previous response to this recommendation, it was indicated that OWCP would dedicate additional budgetary and organizational resources to a new fiscal position. The new position has been created, cleared through the Personnel Division and announced nationally. As proposed, the position description focuses on the areas necessary to accomplish the monthly reconciliation objective along with other fiscal matters. A copy of the position description is provided with this response.

While OWCP had committed to refining a report that would be used for complete reconciliation, after attempts to do so, we have determined that such a report is not possible without the system redesign. Thus, as stated in prior years, the ultimate solution to this recommendation must await the FECS redesign system, which will comprehensively update and integrate the separate legacy systems for compensation (ACPS), bill payment (BPS), Debt Management and chargeback. Given the need for system changes and OWCP's commitment of additional staff and resources for proper recording and investigation of differences, this recommendation should be resolved and open pending next year's audit results and the completion of the FECS Redesign.

OIG's Conclusion:

These recommendations remain **unresolved**. The staffing of the additional positions and the results of the tasks assigned to these individuals, in conjunction with the redesign of the FECS system, are necessary for closure of this recommendation which will be reviewed during the FY 2001 audit.

Continuing Eligibility

In our FY 1997 Management Advisory Comments (OIG Report 12-99-001-13-001), we made the following recommendation:

- ***We recommended that the Acting Chief Financial Officer and the Assistant Secretary for Employment Standards reemphasize (through training or other means) that claims examiners:***
 - ***are responsible for obtaining the support for a claimant's current disability status;***
 - ***should document their requests for such support; and***
 - ***should follow the procedures in the Federal (FECA) Procedure Manual, Chapter 2-812 when a claimant fails to provide requested information.***

Prior years' audits noted that current CA-1032s had not been requested or received. A CA-1032 is a claimant's annual self-certification as to eligibility for benefits and report of earnings information. Claimants are required to disclose a change in marital, dependent, or employment information as well as whether or not the individual has been incarcerated. The Claims Examiners check the information reported by the claimant on the CA-1032 with the information in the ACPS and claimant file and adjust the claimant's benefits accordingly.

The FY 2000 audit found that in 8 of 141 instances (6 percent), a current CA-1032 was not obtained to support the claimant's current disability status and in 4 of 6 instances (67 percent), no response was received to a second request CA-1032 yet compensation benefits were not suspended.

The audit also found that in 12 of 217 instances (6 percent), current medical evidence was not obtained to support the claimant's current disability status. Current medical evidence is required from every year to every 3 years to verify the claimant's continuing disability status. In addition, we selected a sample of 75 items on which compensation benefits had been paid, no medical payments were identified during the past 2 years in the BPS, and which contained a "PV" or "PR" status. Twenty-nine of the 75 (39 percent) cases tested, from a population of 2,916 cases, did not contain medical evidence.

This recommendation is **resolved and open**. Improvement was noted from the prior year's errors. Resolution is dependent upon the continued decline of errors in ensuring that CA-1032s and medical evidence are requested and received from claimants on a timely basis or that benefits are suspended if claimants do not furnish required information, which will be reviewed during the FY 2001 audit.

Management's Response:

OWCP has changed the procedures for obtaining earnings information by requiring submission of the authorization to obtain earnings data from SSA (form SSA-581) every year along with the CA-1032 instead of every three years. The procedures emphasize the requirement to follow-up with a second request within 30 days, and then refer the case to the OIG for investigation if the SSA-581 is not signed and returned. In addition, each district office has been required to establish improved procedures to assure that the CA-1032 is issued and returned in each applicable case, and that remedial action is taken promptly when the CA-1032 is not returned.

The OIG identified items in which compensation benefits had been paid, with no medical payments during the past 2 years. Current medical evidence is required from every year to every 3 years (depending on case type) to verify the claimant's continuing disability status. The OWCP Periodic Roll Management project (PRM) is the highly successful process used to review the entire universe of periodic roll cases. The cases identified by the OIG's computer match are among those which have not been reached by the PRM. We will explore including the OIG method of identifying cases with no medical payments for two years as a supplement to existing PRM prioritization techniques. However, since the original universe of older periodic roll cases will not have been reviewed by the PRM Teams for another 2-3 years due to resource constraints, some cases of this type will continue to be present during that time period.

OIG's Conclusion:

This recommendation will remain **resolved and open**. Closure is dependent upon the effectiveness of the improved procedures which are being established by the district offices to assure issuance and follow-up action when the CA-1032 is not promptly returned. These improved procedures will be reviewed during the FY 2001 audit.

7. Property and Equipment

Status of Prior Year Findings and Recommendations

SESA Real Property

In prior years, we reported that ETA did not maintain sufficient accountability over real property purchased with SESA grant funds in which the Department maintains a reversionary interest. ETA was not able to provide an inventory of state SESA property nor determine if states had conducted required annual certifications of SESA property. An OIG audit (OIG Report No. 06-97-056-03-325) reported similar findings.

An adequate accounting of SESA real property is necessary to ensure that the Department's equity in such assets is adequately protected, and that proper compensation would be made to the Department when SESA property was no longer used for DOL-related purposes.

In our FY 1995 audit (OIG Report No. 12-96-007-13-001), we recommended that:

- *the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that:*
 - S Regional offices and other responsible parties follow established procedures for accounting for SESA real property.*
 - S Inventory of SESA real property is expeditiously brought up-to-date.*
 - S State certifications of SESA real property are obtained as required by ETA policy.*

In August 2000, ETA issued Field Memorandum 32-00 directing State Employment Security Agencies to provide updated and certified inventories of real property with a DOL reversionary interest to ETA National Office. ETA's estimated completion date for the receipt of certified inventories was December 2000. As of January 15, 2001, ETA was in receipt of 26 of 48 (54 percent) certified inventories from affected SESAs. ETA estimates that the balance of certified inventories will be received no later than May 2001.

These recommendations remain **resolved and open**. Closure is dependent upon our verification of ETA's receipt of the State certifications of SESA real property inventories.

Management's Response:

The responsibility for accounting for SESA real property was transferred in October 1999 from the Regions to the National Office effective with the reorganization. During FY 2000, the system used to maintain these records was rewritten and letters were sent to States requesting that they certify the information contained on Federal records or provide updates. At present, more than 80 percent of the States have certified Federal records or provided updates. Most of the remaining States have indicated they are in disagreement with our records and are working to reconcile them with their own information. A few States have not responded and are being sent a second request. If responses are not received by mid-year, further actions will be considered.

Maintaining the inventory and obtaining annual certifications is now done as part of ETA's regular work and the finding should be closed.

OIG's Conclusion:

These recommendations remain **resolved and open**.

8. Performance Measures

Status of Prior Year Finding and Recommendation

In our FY 1992 audit, we made the following recommendation (OIG Report No. 12-93-008-07-001) to improve controls over the existence assertion for reported performance measures:

- *The Chief Financial Officer should ensure that all material weaknesses identified in individual agency performance measures audit reports are addressed by the agencies to ensure the integrity and accuracy of information supporting program measurements.*

The weaknesses reported for Job Corps, OSHA and PWBA, and the availability of UIS documentation have been corrected. The status of the remaining weakness reported for UIS (verification process) is as follows:

Verification Process — UIS

The UIS completed its 3-pilot test of the UI data Validation system in late 1998. The plans for mandatory implementation are set for the spring of 2001. The target date to begin is May 2001,

but the actual date will depend on when the Department receives OMB clearance under the Paperwork Reduction Act of 1995.

In summary, four of the five weaknesses noted have been corrected, and ETA has taken action to eliminate the remaining weakness. Therefore, the recommendation remains **resolved and open**. Closure is dependent on completion of the UIS verification process and an OIG assessment of the impact of these changes on the data being reported.

Management's Response:

The ETA, OWS is proceeding with its implementation plans.

OIG's Conclusion:

This recommendation remain **resolved and open**.

9. Working Capital Fund Cost Allocations

Status of Prior Year Finding and Recommendation

In our FY 1992 audit, we made the following recommendation (OIG Report No. 12-93-008-07-001) for improving the operations of the Working Capital Fund:

- C A strategy should be developed for allocating DOL Academy costs based on usage of the Academy's training services and ensuring cost recoveries which are based on unit pricing of goods and services reflect the current costs to the WCF for providing such service.***

In response to this recommendation, OASAM's Human Resource Center (HRC) has instituted a two-tiered WCF pricing strategy for the DOL Continuous Learning and Career Management Center, Training and Development (formerly DOL Academy). One tier is based on client usage and the second tier is based on DOL employment.

During the FY 2000 audit, we reviewed the charges to the agencies for the Academy and have determined that a majority of the charges were based on DOL employment and not client usage. The WCF has not developed a system to ensure monthly reporting to the OCFO is based on actual usage. For the month of June in FY 2000, DOL Academy Training Activities incurred approximately \$355,451 worth of charges and only \$49,271 (14 percent) were able to be charged directly. Of the center's two object classes, object class number 2523 "Continuous Learning and Career Management" charged \$24,860 out of \$273,622 (9.1 percent) as direct costs; and object class number 2546 "Conference and Service Center" charged \$24,411 out of \$81,829 (29.8 percent) as direct costs for the month of June.

In order to have an effective allocation process, the WCF needs to be able to determine the occupancy rate for the "Continuous Learning and Career Management" and the "Conference and Service Center." The occupancy rate should be determined on a room by room basis that would show how often each room is being used. From the occupancy rate, the effectiveness of the allocation process and how effectively the space is being utilized could be determined.

This recommendation is **unresolved**. Resolution of this recommendation is dependent upon the WCF's calculation of an occupancy rate for the "Continuous Learning and Career Management" and the "Conference and Service Center." Closure is dependent on the allocation of cost through the WCF based on the usage which can be determined from the occupancy rate.

Management's Response:

HRC Pricing Strategies for Working Capital Fund

The Department retained the services of PriceWaterhouseCoopers to review the current pricing strategy. The result of their review is the pricing strategy in affect is reasonable. The following sets forth their conclusions and recommendations.

Background

The Office of the Inspector General issued a statement of fact indicating that the Human Resources Center (HRC) should recover more costs through "direct charges" to agencies for two of it's services in the Working Capital Fund: the Continuous Learning and Career Management Center (Object Class 2523); and the Conference and Service Center (Object Class 2546). The OIG would like HRC to recover more of the cost of these activities through "direct charges" to agencies rather than general allocations across the Department (typically based on employment levels). Citing data from the May 2000 cost recovery report, the IG stated that approximately 9% of the Continuous Learning and Career Management Center's costs were recovered through direct charges. These direct charges consist of charges for course delivery and are based on the number of attendees from each agency. For the Conference and Service Center, approximately 30% of costs were recovered through direct charges, which are based on the price (defined in the pricing strategy) charged for conference rooms. It should be noted that the percentages recovered through direct charges vary from month to month depending on level of services provided that are recovered through direct charges as well as overall expenses for each of the centers. In addition, the direct charges cited by the IG do not include usage by customers that are part of the Working Capital Fund (e.g., OCFO, BOC).

HRC developed the pricing strategies in question as a result of a 1992 OIG recommendation that the conference room costs and training reimbursements be apportioned on a user basis than a straight per capita charge. As a result, the HRC developed, in consultation with agency customers, the following cost recovery strategy:

- Conference room rental costs charged to users based on schedule of fees (i.e., room size and duration of meeting):
- Training development and policy would continue to be apportioned on a per capita basis since all DOL employees were beneficiaries (approximately 40%) and training course delivery would be charged based on actual agency usage (approximately 60%).

The strategies were approved by the Working Capital Fund Advisory Committee which included representatives from each agency and have been in operation for several years. The pricing strategy in question was never intended to include the other range of services provided by the Continuous Learning and Career Management Center, namely career assistance and career management programs, and targeted recruitment services.

After reviewing the OIG Memorandum “Status of Prior Year Finding and Recommendation – WCF-1,” dated December 6, 2000, we analyzed the current pricing structure of the HRC activities mentioned above and conducted interviews with OASAM and HRC personnel. Based on the information gathered from documentation and interviews, we have made the following observations with respect to the current pricing structure as well as the viability of suggested alternatives.

Continuous Learning and Career Management Center (CLCMC)

The primary issue is the allocation of the costs of certain activities that are difficult to recover through direct charges, such as developing training programs created for all agencies in the Department, training policy development, career assistance and career management programs, and targeted recruitment services. The current pricing structure calls for common needs training course delivery costs to be recovered based on usage and the remainder of the other program costs be distributed across the Department based on FTE. This is based on the rationale that these activities are done in support of all agencies and are available to the entire Department.

The agencies are charged for specific training courses delivered, based on the length of the course and the number of attendees. That pricing structure is as follows:

Half day	\$60
Full day	\$100
2 days	\$200
3 days	\$300

The pricing strategy was developed to recoup expenses that could be clearly identifiable to a particular user or beneficiary. This was clearly possible in identifying agency users of training courses. The CLCMC surveys all DOL agencies in advance of the fiscal year to identify their training needs, both in the national and regional offices, and establishes the Department’s training calendar in accordance with the survey results. DOL agencies are billed for their commitments, whether they utilize the spaces or not, and CLCMC will still provide customized training services on a user reimbursable fee basis. The other activities of the CLCMC are not conducive for a user reimbursable approach in that the beneficiaries are all Department of Labor employees. The development of training policy and training program materials are for the benefit of the Department as a whole and can’t be ascribed to benefit any particular portion of the DOL population.

The creation of career assistance and career management programs was pursuant to an Executive Order issued by President Clinton. The services and programs of this activity are to the benefit of all employees and can be accessed by all Departmental employees, regardless of location. Reimbursement based on usage would be impossible as the services are available DOL-wide and usage is not managed by the agency, but rather initiated on a confidential basis by the individual employee. A change in the cost recovery system would undermine the basic premises in the establishment of the services and programs as envisioned in the Executive Order and thereby HRC is restricted in its ability to alter the current pricing strategy.

The final activity of the CLCMC is targeted recruitment activities. These efforts focus on helping all DOL agencies in their efforts to expand external liaison with outside organizations to enable the Department to attract and hire a diverse workforce. This activity works closely with all DOL Personnel and EEO Managers to assess hiring needs and the most fruitful avenues to address under

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representation workforce issues. The beneficiary of this activity is the Department as a whole and its individual agencies, and not any particular component of the Department so as to provide a possible vehicle for a change from its current per capita cost recovery strategy.

It should also be noted that the HRC does not maintain a separate set of rooms for training. Courses are held in conference rooms that are managed by the Conference and Service Center and are reserved on an as needed basis.

Conclusion: Based on the information provided, it appears that the cost recovery strategy for the Continuous Learning and Career Management Service is reasonable. HRC must balance the opposing goals of charging agencies based on the actual cost of course development and delivery with setting a reasonable price that will encourage agencies to take advantage of the courses. In addition, a significant portion of the CLCMC costs are not specifically related to course development and delivery, and should not be included in the cost recovery strategy based upon usage. These other activities and services are provided in support of the Department as a whole and the method of cost recovery should reflect that.

Recommendation: It is our recommendation that the current pricing strategy for the Continuous Learning and Career Management Center not be changed.

Conference and Service Center

There are several factors essential to determining the pricing structure for meeting space. The primary focus of the issue is how to recover all of the costs associated with managing conference and public spaces while fairly allocating the costs to the various agencies within Department of Labor (DOL).

The Center charges rates based on the length of the meeting and the size of the room, and charges higher rates to non-DOL customers. These prices are set to be comparable to prices charged by hotels and other facilities in the area. These “market-based prices” do not recover the full cost of managing the meeting and conference facilities. The costs not recovered based on usage are recovered through a general allocation across the agencies that are in the Frances Perkins Building.

HRC previously charged higher rates, however, utilization of the rooms dropped dramatically which resulted in a reduction, not an increase, in revenues to HRC. If HRC were to increase the price based on cost, it is likely that current customers would significantly decrease their use of the conference rooms and would instead resort to external options such as hotels and neighboring conference facilities that offer similar amenities for lower prices. This option did not prove to be a viable pricing structure. The rationale is that direct costs must be low enough to create an incentive to use the facilities, yet not too low so as not to properly allocate costs based on usage.

Following are the rates charged by HRC for meeting and conference facilities:

	Internal Client	External Client
Small Rooms		
Up to 4 hours	\$25	\$30
More than 4 hours	\$50	\$60
Large Rooms		
Up to 4 hours	\$50	\$60

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More than 4 hours	\$100	\$120
Public Space		
Great Hall		
Up to 4 hours	\$250	\$500
More than 4 hours	\$500	\$1,000
Auditorium/Mezzanine/North Plaza		
Up to 4 hours	\$125	\$250
More than 4 hours	\$250	\$500

Another important issue is how much the facilities are utilized. For planning purposes, HRC assumes 75% utilization for conference rooms and facilities (excluding public space). Our initial estimate based on utilization information from HRC indicates that actual room utilization is approximately 50%. This estimate is for all conference rooms/facilities as a whole; we did not calculate utilization of individual rooms. The estimated utilization rate is based on the number of hours the rooms are actually reserved. However, customers are charged for a block of time (e.g., 4 hours), so that a 1 hour meeting and a 4 hour meeting costs the same. Consequently, customers have paid for more hours than actually used, so the estimate of 50% underestimates the number of hours actually paid for by customers. In addition, a room may not be used for the entire period for which it is scheduled, but the agency is still charged for the time period reserved. Additional analysis would be necessary to determine the difference between hours paid for and hours actually used. It should be noted that the utilization of the public space facilities is significantly lower than the conference rooms. This is to be expected given that fewer meetings and events require such large space. The public space facilities are not included in the utilization rate cited above.

It should be noted that approximately 24% of the Conference and Service Centers cost is not conducive to cost recovery based on usage. These services are the management of the Center itself and technical assistance services provided by the Central Office for Assistive Services and Technology. The approved pricing strategy reflects these services being allocated on a per capita basis.

The other factor that impacts upon the full recovery of the conference costs is the high usage by customers who themselves are funded through the Working Capital Fund of which there is no return.

Conclusion: Based on the information provided, it appears that the cost recovery strategy for the Conference and Service Center is reasonable. The strategy must balance the opposing issues of charging agencies based on the actual cost of managing the Center with setting a reasonable price that will encourage agencies to use the conference facilities. Based on prior pricing strategies, it appears that setting prices based on full cost recovery would discourage use of the rooms.

Recommendation: It is our recommendation that the current pricing strategy for the Conference and Service Center not be changed.

OIG's Conclusion:

This recommendation is **resolved and open**. Closure is dependent upon our review of the current pricing strategy for the Continuous Learning and Career Management Center and the Conference and Service Center during the FY 2001 audit.

10. Debt Management

Status of Prior Year Finding and Recommendation

Noncompliance with the Debt Collection Improvement Act of 1996

In our FY 1998 audit (OIG Report No. 12-99-002-13-001), we reported that eight Department of Labor agencies or programs did not submit all receivables that have been delinquent for a period of 180 days to the Department of the Treasury. The Debt Collection Improvement Act of 1996 (DCIA) provides that any non-tax debt or claim owed to the United States that has been delinquent for a period of 180 days or greater be turned over to Treasury for appropriate action to collect or terminate collection actions on the debt or claim. We made the following recommendation:

We recommended that the Acting Chief Financial Officer ensures that:

- C *Receivable cases presently over 180 days delinquent are submitted to the Department of the Treasury to bring the Department of Labor into substantial compliance with the DCIA.*

In FY 2000, the Department continued to improve compliance with the DCIA. Only one agency remains not in substantial compliance, as follows:

- S ESA's Wage and Hour Division does not have a process in place to identify and transfer delinquent back wage accounts receivable to Treasury. However, the system provided an aging of accounts receivable up to 60 days delinquent. As of September 30, 2000, this system reflects that \$4.2 million of the \$5.4 million accounts receivable balances were over 60 days delinquent. The number of cases and amounts which are eligible for submission to Treasury (over 180 days delinquent) could not be determined. Currently, Wage and Hour is implementing a new BCDS system with features to allow for identification of delinquent accounts and timely transferring of debt to the U.S. Treasury in compliance with DCIA requirements.
- S ESA's Civil Monetary Penalty (CMP) system reflects 1,109 cases of which 887 cases were eligible for submission to Treasury. Of these 887 cases, 222 (25 percent) have not been submitted as of September 30, 2000.
- S ESA's Black Lung Disability Trust Fund (BLDTF) has two types of receivables: (1) claimant receivables, and (2) medical providers. Of the claimant receivables, 125 accounts totaling approximately \$2 million were delinquent more than 180 days at September 30, 2000. Of the 125 accounts, 51 totaling \$1.3 million were submitted to Treasury. With respect to medical provider accounts, management implemented a reporting system in FY 2000 which ages accounts receivable for medical providers. While the implementation of this system represents an improvement from prior years, the system reflects that there are 7,308 accounts totaling approximately \$2.5 million that were delinquent more than 180 days at September 30, 2000. Only 14 of the 7,308 accounts, totaling \$88,000, were submitted to Treasury.

This recommendation is changed from resolved and open to **unresolved** pending the submission of a corrective action plan, including time frames, as to how ESA will ensure that the listed programs will achieve substantial compliance with the DCIA.

Management's Response:

Wage-Hour Response

On October 2, 2000, the redesigned Back Wage Collection and Disbursement System (BCDS 2000) was put into production. On November 15, 2000, the Debt Collection portion of this system was implemented, along with instructions issued to the field on how to identify potential Back Wage Debt Collection cases. At that time procedures were put in place to determine which cases would be referred to the BCDS 2000 system for potential referral to the Treasury if the debt remains delinquent in excess of 180 days. These decisions are being made jointly by the Regional Solicitor of Labor (RSOL) staff and Wage-Hour personnel based on the facts of each case. Each region was provided with a list of potential cases that might be eligible for Debt Collection and asked to provide the National Office with the status of each case. A tickler system has been implemented in the Wage-Hour Investigative Support and Reporting Database (WHISARD) to assist District Offices in determining when a case will require Debt Collection action. Similarly the BCDS 2000 has a system to remind users of the need to send demand letters and the Treasury Notification Letter, as well as, refer the debt to Treasury. Training in Back Wage follow-up and debt collection has either taken place already or is being planned for the support staff in each region.

Regarding the CMP system according to 31 CFR section 285.12(c)(3)(I) and 900.2(b)

A debt is considered 180 days delinquent for purposes of this section if it is 180 days past due and is legally enforceable. A debt is past-due if it has not been paid by the date specified in the agency's initial written demand for payment or applicable agreement or instrument (including a post-delinquency payment agreement) unless other satisfactory payment arrangements have been made.

We are uncertain how the OIG identified the 222 cases noted above. Based on Treasury's criteria, our reports show significantly fewer cases that were actually delinquent for more than 180 days and still had not been referred to Treasury. In a large percentage of cases where the employer receives the Treasury Notification Letter, they contact Wage-Hour and either pay the debt, negotiate an installment agreement or renegotiate an existing installment agreement. There are approximately 101 cases shown on the CMP Tickler Report as having an effective date 180 days prior to October 1, 2000 and showing no payments made or renegotiated agreements. Of those cases, 20 have been sent to the Treasury since October 1, 2000. Another seven cases are waiting for the 60 days to elapse from the issuance of the Treasury Notification Letter before the debt is referred to Treasury. This 60 day waiting period is called for in Treasury's Certification document, which is required to be attached to all batches transferred to the Treasury. Of the remaining cases some are in negotiations with Wage-Hour to create an installment plan to pay off the debt and others are in bankruptcy and being pursued for Wage-Hour by the RSOL. Some of the cases were written off for a variety of reasons and other cases still need to have the appropriate demand or Treasury Notification Letter sent.

Since most of the CMP data entry staff also work on BCDS, we did get behind in our issuance of Treasury Notification Letters and transfers of CMP debts to Treasury late in FY 2000. This was due to the review of all 6000 BCDS cases, matching of BCDS cases to WHISARD, and training on BCDS 2000, all of which happened shortly before the September 30, 2000, reporting date

referred to above. All regions have been diligently working to catch up on sending Treasury Notification Letters and referral of the debts to Treasury. It is Wage-Hour's policy that Demand Letters and Treasury Notification Letters be issued at least once per week, if not every day, and debts are to be transferred to the Treasury Debt Management Service at least once per month. As of December 30, 2000, the CMP System had referred 956 cases with a beginning receivable balance of \$4,184,628.51 to the Treasury.

Black Lung Disability Trust Fund Response:

The audit report substantially overstates the number of non-compliant accounts and the dollar amounts involved. The auditor's finding on claimant debts is based upon the program's management information reports that age accounts receivable from the date they are entered into the accounting system, rather than from the date a delinquent debt is established.

Claimant Accounts Receivable

DCMWC believes that only a small number of the cases reviewed should have been, but were not, referred to Treasury, per the DCIA. (We have supplied detailed explanation of this position under separate cover). Nevertheless, the program agrees that debt collection should be a priority, and has recently acted to ensure that all cases get handled in a timely manner and referred as required for collection. Using a National Office review of the Accounts Receivable (AR) Aging Report significant improvements in the District Offices handling of overpayments and referrals to Treasury were achieved in FY 2000.

Disputed Medical Bills

The audit finding in this area was exaggerated due to the use of disputed medical bills for which an account receivable was established, instead of the number of delinquent debts referable to Treasury per the DCIA. (The latter is a far smaller number. A detailed explanation of this analysis has been provided under separate cover).

While DCMWC believes the report therefore overstates the number of cases that should have been referred to Treasury, but were not, the program will continue to take steps to improve this process. Upon implementation of the new IT system, the program will develop enhanced management information reports that will allow us to identify and eliminate bills that cannot be collected. These would include receivables that represent disputed bills greater than ten years old. Bills will also be combined for each provider to more accurately identify the actual number of potential "accounts" rather than individual items that would be contained in the accounts. This will greatly facilitate our ability to organize and refer delinquent debts to Treasury for collection. Absent this ability, individual debts are often so small (many under \$30) that it is not cost effective to attempt to collect them.

We believe, given the actions already taken and those planned upon the implementation of the new IT system, that we are making substantial progress in our DCIA compliance efforts. This recommendation should be resolved, with closure pending implementation of the enhanced management information reports and results of the FY 2001 financial audit.

OIG's Conclusion:

With respect to Back Wage accounts receivable, this recommendation is **resolved and open** based on ESA's implementation of the BCDS 2000. Closure is dependent upon our review of DCIA compliance under the new system in the FY 2001 audit.

With respect to CMP accounts receivable, this recommendation is **unresolved**. Resolution of this recommendation is dependent upon our review of a specific corrective action plan which will ensure ongoing compliance with the DCIA.

With respect to the BLDTF claimant accounts receivable, this recommendation is **resolved and open**. Based on discussions with and documents provided by management, DCMWC has made substantial progress subsequent to September 30, 2000, in reducing the number of debts that should have been sent to Treasury, and has implemented a monitoring program to actively review delinquent accounts. Closure of this recommendation is dependent upon our review of DCIA compliance in the FY 2001 audit.

With respect to the BLDTF medical provider accounts receivable, this recommendation is **unresolved**. Resolution is dependent upon the submission of a specific corrective action plan which includes:

- S** documentation of policies and procedures in the Coal Mine (BLBA) Procedures Manual for pursuing collection of medical provider overpayments and for assessing interest on delinquent medical provider accounts;
- S** identification and design of reports that aggregate medical bill overpayments by provider, so that the total due from each provider can be easily calculated; and
- S** identification and write-off of accounts past the Statute of Limitations date for collection.