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

**September 30, 2002**

**U.S. Department of Labor**
**Office of Inspector General**
**Report Number: 22-03-003-13-001**
**Date Issued:  March 28, 2003**

# ACRONYMS

| | |
|---|---|
| ADP | Automatic Data Processing |
| A/OPC | Agency/Organization Program Coordinator |
| APO | Accountable Property Officer |
| BAM | Benefit Accuracy Measurement |
| BLAS | Black Lung Accounting System |
| BLBM | Black Lung Benefits Manual |
| BLDTF | Black Lung Disability Trust Fund |
| BLS | Bureau of Labor Statistics |
| BPC | Benefit Payment Control |
| BPS | Bill Payment System |
| BQC | Benefits Quality Control |
| CAMO | Capitalized Asset Management Officer |
| CATARS | Capitalized Asset Tracking and Reporting System |
| CFO | Chief Financial Officer |
| CFR | Code of Federal Regulations |
| COTR | Contracting Officer's Technical Representative |
| CY | Calendar Year |
| DCMWC | Division of Coal Mine Workers Compensation |
| DFEC | Division of Federal Employees' Compensation |
| DFSS | Division of Financial Systems and Services |
| DHHS | U.S. Department of Health and Human Services |
| DITMS | Division of Information Technology Management and Services |
| DLMS | Department of Labor Manual Series |
| DO | District Office |
| DOL | U. S. Department of Labor |
| DOLAR$ | Department of Labor Accounting and Related Systems |
| DWCFF | Division of Working Capital Fund Financing |
| EDP | Electronic Data Processing |
| EEOICP | Energy Employees' Occupational Illness Compensation Program Act |
| EIMS | Electronic Information Management System |
| ESA | Employment Standards Administration |
| ETA | Employment and Training Administration |
| FAR | Federal Acquisition Regulations |
| FASAB | Federal Accounting Standards Advisory Board |
| FFMIA | Federal Financial Management Improvement Act |
| FMO | Forms Management Officer |
| FMRS | Financial Management Reporting System |
| FY | Fiscal Year |
| GAO | General Accounting Office |
| GOTR | Grant Officer's Technical Representative |
| GPRA | Government Performance and Results Act |
| GSA | General Services Administration |
| IAC | Internal Accounting Code |
| ILAB | Bureau of International Labor Affairs |
| IT | Information Technology |
| JCC | Job Corps Center |
| JFMIP | Joint Financial Management Improvement Program |

| | |
|---|---|
| JTPA | Job Training Partnership Act |
| LAN | Local Area Network |
| MSHA | Mine Safety and Health Administration |
| N/A | Not Applicable |
| No. | Number |
| NO | National Office |
| OAPS | Office of Accounting and Payment Services |
| OASAM | Office of the Assistant Secretary for Administration and Management |
| OC | Office of the Comptroller |
| OCFO | Office of the Chief Financial Officer |
| ODI | OSHA Data Initiative |
| OFAS | Office of Financial and Administrative Services |
| OLRFI | Office of Labor Racketeering and Fraud Investigations |
| OIG | Office of Inspector General |
| OMAP | Office of Management and Planning |
| OSEC | Office of the Secretary |
| OSHA | Occupational Safety and Health Administration |
| OWCP | Office of Workers' Compensation Programs |
| OWS | Office for Workforce Security |
| PP&E | Property, Plant and Equipment |
| PWBA | Pension and Welfare Benefits Administration |
| PY | Program Year |
| RMO | Responsible Mine Operator |
| S&E | Salaries and Expense |
| SFFAS | Statement of Federal Financial Accounting Standards |
| SFO | Servicing Finance Office |
| SMS | Systems Management Server |
| SPAMIS | Student Pay Allotment and Management Information System |
| UCAC | Unemployment Compensation Advisory Council |
| UI | Unemployment Insurance |
| UIDB | Unemployment Insurance Data Base |
| UIDV | Unemployment Insurance Data Validation |
| UIPL | Unemployment Insurance Program Letter |
| UIS | Unemployment Insurance System |
| USC | United States Code |
| WCF | Working Capital Fund |
| WHD | Wage and Hour Division |
| WHISARD | Wage and Hour Investigative and Reporting Database |
| WIA | Workforce Investment Act |

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

**Assistant Inspector General's Report on the**
**Findings and Recommendations to the Chief Financial Officer**
**Related to the FY 2002 Report on Performance and Accountability Audit**

We have audited the Report of Performance and Accountability of the United States Department of Labor (DOL) for the year ended September 30, 2002, and have issued our report thereon dated January 6, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statement audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

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

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

With respect to internal control related to performance measures reported in the Department's FY 2002 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**.**

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

The Assistant Inspector General's Report, which expresses our opinion on the fair presentation of DOL's Fiscal Years 2002 and 2001 principal financial statements, and our reports on internal control and compliance with laws and regulations, are presented in the Department's FY 2002 Performance and Accountability Report.

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

This report is intended solely for the information and use of the management of the 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.

Elliot P. Lewis

ELLIOT P. LEWIS
Assistant Inspector General for Audit

January 6, 2003

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

| AUDIT AREA | FY 1992 | FY 1993 | FY 1994 | FY 1995 | FY 1996 | FY 1997 | FY 1998 | FY 1999 | FY 2000 | FY 2001 | FY 2002 | Total Open |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Crosscutting Issues:** | | | | | | | | | | | | |
| Managerial Cost Accounting | | | | | | | | | | | 2 | **2** |
| Accounting for Grants | | | | | 1 | 1 | | 3 | | 1 | 2 | **8** |
| Property and Equipment | | | | | | | | 2 | | 4 | 1 | **7** |
| Procurement | | | | | | | | 3 | | | | **3** |
| Miscellaneous Revenues | | | | | | | | 1 | | | | **1** |
| Performance Measures | 3 | 1 | | | | | | | | | 1* | **5** |
| **Program Specific Issues:** | | | | | | | | | | | | |
| Black Lung Disability Trust Fund | | | | | | | 1 | 1 | | | | **2** |
| Job Corps Data Center Operations | | | | | | | | | | 2 | | **2** |
| Unemployment Trust Fund | | | | | | 1 | | | 2 | 1 | | **4** |
| **Total Open Recommendations** | **3** | **1** | | | **1** | **2** | **1** | **10** | **2** | **8** | **6** | **34** |

* Recommendation issued in a separate audit report during FY 2002.

# Compliance with Laws and Regulations

# 1. Managerial Cost Accounting

**Current Year Findings and Recommendations**

### a. Implementation of Managerial Cost Accounting

The Department of Labor (DOL) is not in compliance with the requirements for managerial cost accounting contained in Statement of Federal Financial Accounting Standards Number 4 (SFFAS No. 4), The Managerial Cost Accounting Concepts and Standards for the Federal Government. Specifically, DOL has not defined outputs for its operating programs nor developed the capability to routinely report the cost of outputs at the operating program and activity levels. While DOL's current capabilities support the accumulation and reporting of cost information at the major program and responsibility segment levels to satisfy the financial statement reporting requirements associated with the Statement of Net Cost and related disclosures, it does not adequately link cost information to performance measures at the operating program level for use in managing program operations on a routine basis. Additionally, DOL does not use managerial cost information for purposes of performance measurement, planning, budgeting or forecasting.

These cost accounting deficiencies hamper performance measurement in general and particularly where assessment of the economy and efficiency of program operations is concerned. In addition, because of the lack of detailed managerial cost accounting information, DOL managers must make their financial decisions based on the availability of funds. We believe that DOL needs to use adequate cost information to support performance measurement and reporting and to allow managers to focus on the cost of significant activities and outputs as a factor in decision-making.

Noncompliance with requirements for managerial cost accounting persists primarily because DOL has not succeeded in its efforts to implement a functional managerial cost accounting system. System implementation has not been successful because:

- agency and program management responsible for the vast majority of DOL's operating programs have not actively participated in the Office of the Chief Financial Officer's (OCFO) implementation effort, and
- the OCFO has had the responsibility but not the authority to effectively coordinate and control the many elements of the implementation project.

During the 1990s, a series of laws, regulations and accounting standards, including the Chief Financial Officers Act (CFO Act) of 1990, GPRA, the Federal Financial Management Improvement Act (FFMIA) and SFFAS No. 4 were enacted to provide a framework for Federal financial management reform. One of the most significant objectives of these statutes was shifting the focus of program management from the traditional budget process to one based on managerial cost information. It was recognized that obligation based budgets made it difficult to correlate a program's budget with how much it costs to run the program. The question of "How much is spent within a budget appropriation?" could be answered but in most cases the question "What does it cost to provide a product or service?" could not.

GPRA requires each agency to establish performance indicators and measure or assess relevant outputs, service levels and outcomes of each program as a basis for comparing actual results with established goals. Managerial cost accounting plays a critical role in performance reporting.

Measuring and reporting actual performance against established goals is essential to assess government accountability. Cost information is necessary in establishing strategic goals, measuring service efforts and accomplishments, and relating efforts to accomplishments. FASAB has recognized the importance of cost information in relation to performance measurement and performance reporting in the Objectives of Federal Financial Reporting where it is stated that:

> The topics of cost and performance measurement are related because it is by associating costs with activities or cost objectives that accounting can make much of its contribution to reporting on performance.

SFFAS No. 4 was promulgated to provide the requirements for managerial cost accounting in the Federal Government. SFFAS No. 4 details the framework for managerial cost accounting capabilities that support financial as well as performance reporting requirements and enhance the link between financial reporting and performance measurement.

Financial accounting, budgeting and managing are three essential components of accountability in the Federal Government and are all required for compliance with the management reform framework defined under the CFO Act, GPRA, FFMIA and SFFAS No. 4. A description of the relationship between these components, along with discussion of how information should be drawn from a common data source by all three, is provided in SFFAS No. 4. This data source consists of all financial and programmatic information used by the budgetary, cost, and financial accounting processes. It includes all financial and much non-financial data, such as environmental data, that are necessary for budgeting and financial reporting. Use of the term "data source" is not meant to imply that all these data are maintained in any one system or location. Furthermore, the term is used in a broad way to include many sources of information.

Managerial cost accounting, financial accounting, and budgetary accounting draw information as needed from the common data source. The data obtained by each of these is processed to attain specific objectives by reporting useful information. The managerial cost accounting processes consist of collecting data from the common data source, processing that data, and reporting cost and output information in general purpose and special purpose reports. Appropriate procedures and practices should also be established to enable the collection, measurement, accumulation, analysis, interpretation, and communication of cost information.

In many areas, SFFAS No. 4 allows for broad interpretation of what constitutes compliance. However, in our opinion there are certain definitive requirements that can be used to test compliance with the standard. For example, the standard requires program management to define outputs and that the unit cost of outputs be provided on a continuous, routine, and consistent basis for management information purposes. We believe that DOL has not met these basic requirements. Paragraph 22 of SFFAS No. 4 provides its specific objectives, including:

> Provide program managers with relevant and reliable information relating costs to outputs and activities. Based on this information, program managers can respond to inquiries about the costs of the activities they manage. The cost information will assist them in improving operational economy and efficiency.

SFFAS No. 4 also recognizes the importance of clearly defining managerial cost accounting activities at paragraph 71 where it is stated that:

> All managerial cost accounting activities, processes, and procedures should be documented by a manual, handbook, or guidebook of applicable accounting operations. This reference should outline the applicable activities, provide instructions for procedures and practices to be followed, list the cost accounts and subsidiary accounts related to the standard general ledger, and contain examples of forms and other documents used.

Further impetus for developing cost information is provided by the President's Management Agenda for FY 2002 emphasizing the need to achieve effective and efficient competition between public and private sources. To support this competition, DOL will need to develop cost information for activities that may be subject to competition with the private sector or other Federal entities.

The CFO Act calls for the systematic measurement of performance, the development of cost information and the integration of program, budget and financial information. FFMIA builds upon the CFO Act by emphasizing the need for agencies to implement and maintain systems that can and do provide timely, accurate and useful information with which to make informed decisions and to ensure accountability on an ongoing basis. FFMIA requires DOL to implement and maintain financial management systems that comply substantially with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the U.S. Standard General Ledger at the transaction level.

FFMIA states ". . . (w)hen the accounting concepts and standards developed by FASAB are incorporated into Federal financial management systems, agencies will be able to provide cost and financial information that will assist Congress and financial managers to evaluate the cost and performance of Federal programs and activities . . . ." The Act lists seven purposes, which include to:

> require Federal financial management systems to support full disclosure of Federal financial data . . . to the citizens, the Congress, the President, and agency management; increase the accountability and credibility of federal financial management; and, increase the capability of agencies to monitor execution of the budget by more readily permitting reports that compare spending of resources to results of activities.

FFMIA requires not only that Federal agencies have systems that can provide reliable and consistent disclosure of financial information but also that the system capabilities are used. In the case of managerial cost information, this requires that management provide and document a framework for the development and reporting of useful cost information (i.e., a managerial cost accounting capability).

DOL produces financial statements including the information required for the Statement of Net Cost and related disclosures. However, DOL has not developed the detailed managerial cost information useful for decision-making or evaluating program performance on a regular basis. For this reason, we conclude that DOL does not substantially comply with the FFMIA requirement for producing managerial cost information consistent with standards in SFFAS No. 4.

DOL's core accounting system (DOLAR$) and various agency-specific subsystems are substantially compliant with Federal financial management systems requirements. These systems appropriately process, accumulate and report financial, budgetary and other information that form the foundation of the common data source. Additionally, these systems provide a common data source that could provide the information required to produce compliant managerial cost information, once the detailed managerial cost information is identified by the program managers.

For example, DOLAR$ is the source for information about standard general ledger financial transactions at DOL and also maintains information relevant to budget execution and funds control. DOLAR$ reports timely, accurate and useful information for specific purposes, such as preparation of financial statements and assisting managers with budget execution. DOLAR$ also contains information that would be useful for managerial cost accounting purposes if DOL develops managerial cost accounting processes and activities.

DOL's program agencies also employ some proprietary systems that process and record payment, receipt or asset related transactions. Additionally, departmental management entities and the program agencies maintain other systems for management or administrative activities. These systems also contain information that is relevant to and reported for specific purposes. Further, these systems contain information, such as quantities of potential outputs or inputs, that is useful for managerial cost accounting but must be integrated with other data (i.e., full cost data from DOLAR$) to report useful managerial cost information.

DOL's managerial cost accounting weaknesses primarily exist because DOL agency and program managers have not defined outputs and activities or established the framework that provides a context for useful cost information. Until this is done, DOL cannot establish appropriate procedures and practices to enable the collection, measurement, accumulation, analysis, interpretation, and communication of cost and performance information. DOL hired a contractor to help with the development and implementation of a functional managerial cost accounting system. The current CFO was installed during FY 2002 and is continuing with the development and implementation of a managerial cost accounting process.

The CFO Act instructs agency CFO organizations to develop and maintain an integrated agency accounting and financial management system that provides for:

- complete, reliable, consistent and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of management;
- the systematic measurement of performance;
- the development and reporting of cost information, and the relating of cost information to program performance measurement; and
- the integration of accounting, performance and budgeting information.

The CFO Act recognizes the importance of appropriate delegation of responsibilities and provides guidance on that delegation. Responsibilities with specific impact on the ability to integrate accounting, performance and budgeting are divided between the OCFO and the Assistant Secretary for Administration and Management (OASAM) under DOL's current organizational structure. The OCFO has primary responsibility for financial management capabilities, including managerial cost accounting. OASAM has been delegated the responsibility for performance measurement and reporting, and budget formulation. While the OCFO has responsibility for Department-wide accounting operations, OASAM has responsibility for accounting operations for regional and departmental finance centers.

However, the primary responsibility for implementation of managerial cost accounting is not divided, but resides solely with the OCFO. Therefore, successful implementation of managerial cost accounting by the OCFO depends on the full support of top management, full cooperation of

OASAM, and complete acceptance of managerial cost accounting implementation guidance by all DOL components.

**Recommendations:**

1. **We recommend that the Chief Financial Officer ensure the development of a comprehensive Department-wide managerial cost accounting system implementation plan by June 30, 2003. This plan should be based on a current assessment of DOL's compliance with managerial cost accounting requirements and should:**

   - **provide clearly defined responsibilities concurrent with the authority to effectively coordinate and control the many elements of the implementation project;**
   - **provide clearly defined milestones and timelines to allow for effective management of the implementation project and the capability to assess progress;**
   - **ensure that activities and outputs will be defined for all significant programs and that per unit output and other relevant cost information will be routinely reported for those cost objectives;**
   - **ensure the integration of program, budget and financial information; and**
   - **ensure that cost accounting activities are adequately documented, via a manual, handbook, or guidebook of applicable accounting operations, in accordance with SFFAS No. 4.**

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

**Management's Response:**

In accordance with the provisions and requirements of the Act, the Secretary of Labor has determined that the Department of Labor financial management systems are in substantial compliance with the FFMIA.

**OIG Conclusion:**

The OIG maintains the position that since costs are not captured and reported at the level required and there is not in place an integrated system that can be used by managers to manage DOL programs on a day-to-day basis, the Department has not implemented managerial cost accounting as required by the standard. Therefore, the OIG's opinion is that the Department is not in substantial compliance in this regard. These recommendations are **unresolved.**

# Reportable Conditions

# Reportable Conditions

## 1. Property and Equipment

**Current Year Findings and Recommendations**

### a. Job Corps Real Property Depreciation

We noted discrepancies in the calculation of depreciation for capitalized ETA Job Corps real property. The property relates to 1998 and prior recorded in IAC 072 in general ledger accounts #1730 (Buildings) and #1820 (Leasehold Improvements). We reviewed detailed asset listings from CATARS as of April 30, 2002 for each account and recalculated current year depreciation expense (7 months) based on the depreciation start dates and useful live of the assets as assigned in CATARS (using the straight-line method). We noted the following errors:

Account # 1730:

1. We found 13 assets in CATARS that should have been fully depreciated but continued to have a net book value (cost minus accumulated depreciation) of $6 million at April 30, 2002. Depreciation expense continued to be recorded each month. When the error was brought to ETA's attention, ETA adjusted these assets to fully depreciate them as of September 30, 2002.

Account #1820:

1. We found 526 assets that should have been fully depreciated at April 30, 2002. These items have no current year depreciation expense but continued to have a net book value of $57 million. When the error was brought to ETA's attention, they adjusted the assets to fully depreciate these as of September 30, 2002.

Statement of Federal Financial Accounting Standards (SFFAS) No. 6 *Accounting for Property, Plant, and Equipment*, requires the calculation of depreciation to be a systemic and rational allocation of the cost of general PP&E over the estimated useful life of the asset. In addition, GAO's *Standards for Internal Control in the Federal Government* require that internal controls should be designed to assure that ongoing monitoring occurs in the course of normal operations. Based on our fieldwork, the depreciation calculation for the items noted above is not a systematic and rational allocation and depreciation was not adequately monitored. This weakness in internal control over assets valuation resulted in an 11 percent overvaluation of property reported in DOL's FY 2001 financial statements.

**Recommendation:**

1. **We recommend that the Chief Financial Officer ensure that property valuations reported by CATARS are accurate by developing and documenting internal controls that will include quarterly reviews of the asset cost, net book value and depreciation expense.**

**Management's Response:**

When the Office of Inspector General (OIG) raised this issue during its audit fieldwork, the ETA, Office of Financial and Administrative Services (OFAS), Division of Financial Systems and

Services (DFSS) analyzed the capitalized real property activity and discovered that the CATARS stopped calculating depreciation expense on certain assets because the useful life expired before the asset was depreciated fully.

In our review of the useful life for the 2,228 assets totaling $795,119,492 that were loaded in 1999 as part of implementing the CATARS to track Job Corps construction activity, we found 512 assets where the CATARS stopped calculating depreciation expense because the useful life expired. We revised the useful life for these assets so that depreciation expense was calculated correctly through FY 2002 and to prevent this from recurring in the future.

In addition, we found that the CATARS was set up to calculate depreciate expense based on the book value of the assets rather than the gross asset value for all the assets loaded as part of implementing the CATARS in 1999. That being the case, there will always be a difference in the depreciation expense calculated by the CATARS and the OIG's calculation of depreciation expense using the gross asset value until the assets are depreciated fully. In this regard, we would like to point out that the objective of depreciation expense is merely to distribute capitalized costs ratably over an estimated period to time, and not an exact science.

We agree that there was an oversight on our part as we never expected to encounter this kind of a problem. Accordingly, we believe that the issue raised by the OIG as part of the FY 2002 audit should also be closed given (1) the corrective action taken immediately so that depreciation expense was calculated correctly for FY 2002 and (2) that this was an isolated incidence related to the beginning balances we loaded as part of our implementation of the CATARS, and not a recurring issue requiring additional effort or controls put in place to prevent it.

**OIG Conclusion:**

Had adequate controls been in place to monitor asset values, these errors would not have occurred. Without effective controls, there is no assurance depreciation errors will be identified and corrected in the future. Proper internal controls help ensure that the unexpected, when encountered, will be identified and corrected before large adjustments become necessary. Although ETA corrected the errors, the underlying problem has not been adequately addressed.

This recommendation is **unresolved**, pending receipt and review of a corrective action plan with timeframes for completion.

## Status of Prior Year Findings and Recommendations

### Accountable Property

In our FY 2001 CFO Findings and Recommendations (OIG Report No. 22-02-004-13-001), we reported that the Department does not have adequate accountable property systems in place. Specifically, we noted that OASAM, ETA, and ESA do not have adequate written procedures and systems developed for identifying and tracking accountable property.

- ***We recommended that the Chief Financial Officer ensure that the Assistant Secretary for Administration and Management establishes written Department-wide procedures, including JFMIP's property management system requirements, for identifying and tracking all accountable property.***

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

Federal law requires the Department to maintain effective control over, and accountability for, assets for which the agency is responsible, and to safeguard these assets against waste, loss, unauthorized use and misappropriation. These assets include both assets capitalized for financial statement purposes and other "accountable property."

In FY 2002, the Department raised its capitalization threshold from $25,000 to $50,000, which will substantially decrease the number of items requiring capitalization and tracking in the capitalized property system (CATARS). Because OASAM, ETA, and ESA do not have adequate accountable property systems, items below this new threshold will not be tracked in any system, therefore the potential risk of loss to the Department increases. The status of the recommendations to each of the agencies is as follows:

<u>OASAM</u>

In response to our recommendations, OASAM has entered into a contract to conduct a preliminary review of current DOL property management operations, which includes assessing the current property management systems at the National and Regional Office levels, documenting any unmet system core functionality and requirements, describing a target property environment, verifying baseline inventory information, developing a new property management database and documenting responsibilities.

Because OASAM is still in the preliminary stages of resolving this recommendation and has not developed a corrective action plan with timeframes for completion, the first recommendation remains **unresolved** with respect to OASAM.

In addition, OASAM did not maintain an accountable property listing for the assets under its control. Therefore, with respect to OASAM, the second recommendation remains **unresolved**, pending receipt and review of a corrective action plan with timeframes for completion.

<u>ESA</u>

ESA did not have a system in place for tracking accountable property in FY 2002. ESA did provide a summary listing of the number of computers by type and by office/region, but this was not a detailed listing sufficient for tracking and maintaining accountability. The list will be updated and expanded once ESA completes its office automation migration project. No other types of accountable property were included in this listing.

ESA indicated the Department eliminated the requirement for agencies to keep inventories of accountable property, and since that time the agency has not maintained an accountable property system. ESA also stated that they would adhere to any new guidelines established by OASAM once a new system is established, and that it would be counterproductive to develop an ESA system without guidance from OASAM, as OASAM is in the process of assessing the current property management system.

The fact that OASAM is working on a Department-wide system, however, does not preclude ESA from developing an interim system for tracking accountable property. Therefore, this recommendation remains **unresolved** with respect to ESA, pending receipt and review of an adequate corrective action plan.

ETA

In FY 2002, ETA continued to maintain inventories of fax machines, copiers and cell phones in a computerized database that includes information on the serial numbers, make, model, room location, contact and purchase order number of the agreement covering maintenance. A list was provided of the items being tracked.

In response to our FY 2001 report regarding ADP equipment, ETA stated that a physical inventory of all personal computer and LAN printers was started the week of December 4, 2001, as part of the virus upgrade visit to each workstation. ETA intended to enter the information into an inventory tracking system, but the system developed complications. However, in response to our FY 2002 audit follow-up, ETA responded that the inclusion of this type of property in accountable property is not necessary.

Therefore, it appears that ETA has changed its response from FY 2001, and now takes the position that computers and ADP equipment do not need to be tracked because they are inexpensive and rarely stolen. Although price is one consideration that should be factored into what should be tracked, other factors, such as security of data may also be a factor. Also, while some computers may be relatively inexpensive, other laptops and servers likely cost several thousand dollars. Finally, while ETA states there have been little if any thefts, this cannot be supported without a system to track this equipment. Lack of accountability of computer equipment appears to be a governmentwide issue, as GAO has recently cited deficiencies in inventory systems found in two other Federal agencies. GAO indicated that lack of accountability of computer equipment makes the agency more susceptible to fraud, waste, abuse, and mismanagement. We, therefore, disagree with ETA's current position that ADP equipment need not be tracked, and this recommendation remains **unresolved** with respect to ETA.

**Management's Response:**

**OASAM Response:** For accuracy and completeness, the report should reflect that this issue is being addressed as part of OASAM's overall E-Property Management and Inventory Initiative, the goal of which is to establish a Department of Labor-wide property management system that will comply with JFMIP requirements. To date:

- A Baseline Analysis has been completed, which describes current property management systems and processes in place in DOL. DOL agencies and OASAM regional offices were surveyed as part of this analysis, along with site visits to most agencies and selected regions.

- A Gap Analysis has been drafted and is under review. The purpose of this analysis is to identify and document the differences between current property management systems/processes and those that are best practices or required for compliance with JFMIP guidance.

- An agency working group has been formed, which will provide ongoing guidance and recommendations on DOL-wide requirements as this new system initiative moves forward.

- An OASAM inventory working group, with both national and regional office participation, has been formed to provide guidance to the contractor in the development of an interim system to collect OASAM inventory data.

- A Requirements Document has been developed, which describes the requirements for the OASAM Interim Inventory Collection System.

- Systems design and development work for the OASAM Interim Inventory Collection System has begun.

Coincident with implementation of a new JFMIP-compliant personal property management system, DLMS Property Management policy will be revised to correspond with new practices and procedures.

The draft report should be updated to reflect the progress made to establish a DOL-wide property management system. Based on this information and the attached projected timeline for the E-Property Management and Inventory Initiative, we consider both recommendations now **resolved and open** with respect to OASAM.

**ESA Response:** ESA does take seriously the management, tracking and disposal of non-capitalized property. Information provided to, and discussed with audit staff during the audit may not have conveyed the actual state of managing accountable property within ESA at the present time. ESA has a written policy in place detailing what type of IT equipment is to be purchased, and who is authorized to make purchases. ESA IT Procurement Policy and Procedures are attached. In addition, IT procurement records, which often detail the serial numbers of the equipment purchased, are kept in the Branch of Acquisitions Management, Division of Information Technology Management and Services (DITMS), Office of Management, Administration and Planning. Once equipment is procured and receipt is validated distribution is made to ESA Programs in accordance with their procurement plans. Each Program has been delegated the responsibility to maintain the inventory for their particular equipment. ESA Programs use various systems to ensure the equipment is received, appropriately installed or assigned to staff and tracked throughout its life. As an example, the Wage and Hour Division maintains records of its equipment within the WHISARD application's database. Whenever an employee leaves (and the equipment is reassigned) or the equipment is surplussed or donated, WHD staff make the appropriate changes to the database. Reports can be produced from that database showing the location of equipment at any point in time. When it comes time to surplus or redistribute the equipment it is done so in accordance with written ESA Media Sanitation Policy and Procedures. These procedures outline to ESA Programs the steps to be taken to sanitize and surplus/redistribute accountable equipment. Records of surplussed equipment are sent to the IT Security Officer and are maintained in a secured cabinet in DITMS space. The ESA Media Sanitation Policy and Procedures, are available for download on the Intranet under OMAP/DITMS/IT Security. In addition, as ESA completes implementation of its modernized office automation environment, it will use the Microsoft SMS tool to better manage inventory.

ESA will continue to follow its written procedures and maintain this process until the Department's accountable property system is developed and implemented. ESA will also participate with the Department, as appropriate, in the development of its property management system.

**ETA Response:** Both the Department and ETA contend that tracking should be limited to capitalized personal property subject to the thresholds established by the Department--currently $50,000. The OIG finding would require ETA to establish an onerous inventory tracking system to cover microcomputers (worth $600), monitors (worth $179), printers (worth between $379-$3,000) and other peripheral items. Prices for such equipment have been dropping steadily and dramatically since the original inventory requirements were last addressed by the Department in 1991. At that time, the cost of such equipment warranted the controls. Now, the cost of tracking would substantially exceed any possible savings generated by potentially reduced losses due to theft.

ETA's experience with theft of such equipment may be instructive. Even though ETA does not have a current automated inventory system, it does have a process for reporting thefts of equipment. There have been perhaps one or two reported thefts in the past five years. If we assume that inventory maintenance would entail full time employment for two contract staff, the cost of managing an inventory over the past five years would be approximately $120,000 per year or $600,000 over five years. This is 500 times the value of the estimated loss.

ETA recently purchased new inventory software that will be full implemented by June 2003. A complete inventory of all workstations and peripherals in the national and regional offices will be completed by June 2003.

**OIG Conclusion:**

Based on OASAM's corrective action plan and timeframes for completion, both recommendations are **resolved and open** with respect to OASAM, pending completion and review of corrective action.

Although ESA has provided us with procedures on media sanitation and IT procurement, it has not provided us with any agency-wide written procedures or evidence of how accountable property (including IT and non-IT accountable property) is tracked. Therefore, the second recommendation remains **unresolved** with respect to ESA, pending receipt and review of a corrective action plan with timeframes for completion.

The Department's capitalization threshold takes into account the materiality of depreciating versus expensing assets, but that does not mean that items below the threshold do not need to be accounted for properly. We agree with ETA that cost-benefit considerations should be taken into account in establishing an accountable property system; however, safeguarding of assets and security concerns also need to be considered. In addition, ETA should include property other than ADP equipment in its accountable property system. Therefore, with respect to ETA, the second recommendation remains **unresolved**, pending receipt and review of a corrective action plan.

**Capitalized Asset Property Management**

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

***We recommended the Chief Financial Officer ensure that:***

- ***periodic reconciliations of the capitalized asset subsidiary ledger are performed, using CATARS Physical Inventory Reports; and***

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

In our FY 2001 CFO Findings and Recommendations (OIG Report No. 22-02-004-13-001), we also made the following recommendations:

***We recommended that the Chief Financial Officer, the Commissioner for the Bureau of Labor Statistics and the Assistant Secretaries for Mine Safety and Health and Employment and Training ensure that:***

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

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

The Department is required by law to establish internal accounting and administrative controls to reasonably ensure that all assets are safeguarded against waste, loss, unauthorized use, and misappropriation (31 U.S.C. 3512). When an asset is disposed, a DL1-55 disposal form is required to be completed by the APO and submitted to the CAMO for entry into CATARS. The disposal form should be completed at the time of disposal and indicate the date and method of disposal. The disposal method is indicated using one of several predefined disposal codes (e.g., trade-in, salvaged/scrapped, etc.).

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

During our FY 2002 audit, we determined that the Department was not performing reconciliations of CATARS to the physical inventory. Instead, the Department was comparing what was in CATARS to what was found and removed items from CATARS that could not be found, rather than researching to find out the actual disposition of the asset.

We noted at the Department level there were 597 assets recorded as disposed in CATARS, with an acquisition cost of $19 million (book value of $5 million), as of September 30, 2002. Of these 597 assets, 435 or 73 percent did not have a completed DL1-55 disposal form. In addition, 416 or 70 percent of the 597 were recorded as disposed at or after year-end, as a result of the physical inventory process. In some cases, the physical inventory worksheets used to support the disposals were simply notated “delete” next to individual assets, without any indication whether the asset was physically located or its method of disposition. These assets were then recorded in CATARS using the disposal code “Class of Property Dropped from Accountability.” The Department did not properly indicate whether these items physically exist and are in use, and we found no instances where the procedures in the DLMS were followed for determining liability for lost or missing assets.

In FY 2002, the Department raised the capitalization threshold from $25,000 ($5,000 for WCF) to $50,000 for all new personal property. The Department issued guidance regarding the new thresholds and stated they apply to new purchases only. Assets already capitalized should not be retroactively adjusted. Because the disposal code "Class of Property Dropped from Accountability" was the primary disposal method recorded in CATARS, it appears that departmental guidance was not understood or followed. In addition, we found that the Department did not provide training during the year to the CAMOs and APOs regarding the disposal of capitalized assets, and we found that the reconciliation of physical inventory reports to CATARS records did not properly reconcile or clear the missing items in accordance with DLMS procedures.

Because the physical inventory reconciliation process was limited to a comparison, and assets were recorded as a disposal in CATARS without being adequately researched and resolved, the first recommendation remains **unresolved**, pending receipt and review of a corrective action plan with timeframes for completion. Because the Department did not provide any additional training or guidance regarding the disposal of assets, the second recommendation is also **unresolved**, pending receipt and review of a corrective action plan with timeframes for completion.

At the agency level, we noted the following:

<u>BLS</u>

BLS disposed of 43 assets in FY 2002, 40 of which were recorded as disposed in conjunction with the year-end physical inventory. These 40 items had an acquisition cost of $10.9 million and a book value of $3.9 million. Physical inventory sheets indicated items as "not found" or "N/A." The related DL1-55 forms indicated the disposal codes "Transferring to the DOL Warehouse" and "Class of Property Dropped from Accountability." Because these asset disposals were not recorded timely, BLS continues to identify and record missing and disposed items at year-end. If any of these assets are missing or lost, procedures in the DLMS should be followed to determine liability. We found no instances where liability for any missing items was determined by the Accountable Property Officer and Property Management Officers. In response to our FY 2001 report, BLS proposed corrective action that was not effectively implemented in FY 2002. Therefore, with respect to BLS, the third and fourth recommendations remain **resolved and open**, pending effective implementation of a corrective action.

In response to our FY 2001 report, BLS stated that property staff would prepare a report each month of all disposals and finance staff would use this report to ensure that CATARS is updated and the DL 1-55 is on file. BLS also indicated it will advise Accountable Property Officers and Property Management Officers of the procedures for determining liability for lost/missing, stolen or damaged property and follow these procedures. Because these corrective actions were not effectively implemented in FY 2002, with respect to BLS, the third and fourth recommendations remain **resolved and open**, pending effective implementation of corrective action.

<u>ETA</u>

ETA stated it only completed disposal forms when physical inventories were taken. ETA disposed of 20 items (excluding Job Corps property) with an acquisition cost of $517,000 (book value of $57,000) during FY 2002, mostly at year-end. As a result of the year-end physical inventory, several items that could not be located were recorded as disposed using the code "Salvaged/Scrapped." For eight assets, no disposal code was identified. In addition, one APO reported that an item on the CATARS physical inventory report was disposed in March 1999.

Because ETA is still not properly accounting and documenting asset disposals, the third and fourth recommendations remain **unresolved**, pending receipt and review of a corrective action plan with timeframes for completion.

MSHA

Based on our review of disposals in FY 2002, MSHA completed disposal forms throughout the year, and not just at year-end. Therefore, with respect to MSHA, these recommendations are **closed**.

WCF

The WCF had 369 assets with an acquisition cost of $4.1 million (book value of $267,000) disposed during FY 2002. Only six of these had a completed DL1-55 disposal form. For 350 or 94 percent of the 369 assets, the disposal code recorded in CATARS was "Class of Property Dropped from Accountability" with 352 of these disposals recorded at year-end in conjunction with the physical inventory. For 17, or 5 percent of the assets, no disposal code was recorded. We found no instances, where liability for missing items was determined by the Accountable Property Officer and Property Management Officers. Therefore, with respect to the CFO, the third and fourth recommendations are **unresolved**, with resolution dependent upon receipt of a corrective action plan with timeframes for completion.

**Management's Response:**

**BLS Response:** BLS will prepare a DL 1-55 promptly whenever accountable property is disposed and record disposals of capitalized assets in CATARS in a timely manner. BLS also will take the following corrective actions: BLS will modify its property system to identify easily tangible capitalized assets from non-capitalized assets and physically mark these items as capitalized items to further distinguish them from non-capitalized assets. In addition, the system will be modified to generate an e-mail notification to appropriate staff, whenever the status of a capitalized asset is changed to disposed, alerting staff to provide a copy of the DL 1-55 to the CAMO. For intangible capitalized assets, BLS will work closely with APOs to document these items better and to ensure that APOs notify the CAMO when an item is disposed. To verify that these procedures are effective, BLS will conduct a quarterly inventory of all capitalized assets in FY 2003.

BLS provides an annual notification to APOs (see, for example, the memorandum from Jim Sheehy to Cost Center Managers, dated May 23, 2002) on their property management responsibilities, including procedures to follow concerning lost/missing, stolen, or damaged property. BLS will continue to work with APOs to ensure that these procedures are followed.

**ETA Response:** ETA will develop procedures for the disposal of accountable property (other than automation equipment) in accordance with the DLMS. ETA is currently participating in the Department's effort to develop a system to track sensitive, large dollar value items not on CATARS, and items currently captured in CATARS. ETA will follow the Departmental procedures established and implemented with this new system. Until this new system is implemented, ETA will develop and implement interim procedures to document disposal of CATAR listed assets by January 31, 2003.

**OCFO/WCF Response:** The Office of the Chief Financial Officer (OCFO) is responsible for reviewing the timeliness and quality of the two reconciliations related to the Capitalized Asset Tracking and Reporting System (CATARS). The two reconciliations required in the CATARS

Users Guide are (1) a monthly reconciliation between the CATARS and DOLAR$ systems; and (2) an annual reconciliation (by Agency) between the physical counts of property and balances recorded in the CATARS and DOLAR$ systems. This includes a quarterly reconciliation of the ending balances for property and accumulated depreciation reported in the financial statements.

The Office of Accounting and Payment Services (OAPS) will meet with FMO-WCF APO to review the issues related to issuance of the DL-1-55C forms. A process will be established to ensure they are issued throughout the year as assets are removed from service and disposed. OAPS will request a copy of all DL-1-55C forms that document the specific asset removed from the CATARS and DOLAR$ systems and will review the reason for removal from the accounting records. OAPS will notify all DOL agencies, including FMO, that initiate the DL 1-55C forms to explain incomplete and/or inconsistent information and report back to the Agency any issues that require management attention. OAPS will review all quarterly reconciliations to ensure that the quarterly financial statements are correct and current.

**OIG Conclusion:**

The first two recommendations related to the physical inventory reconciliation and the training and guidance for CAMO's and APOs were not addressed in the responses. Therefore, these recommendations remain **unresolved**, pending receipt and review of a corrective action plan with timeframes for completion.

With respect to BLS, the third and fourth recommendations remain **resolved and open**, pending review of corrective action in the FY 2003 audit.

With respect to ETA, the third and fourth recommendations remain **unresolved**, pending our review of ETA's proposed interim procedures.

With respect to the WCF, the third and fourth recommendations are now **resolved and open**, pending review of corrective action in the FY 2003 audit.

## 2. Accounting For Grants

**Current Year Findings and Recommendations**

### a. Excessive Cost Accruals for Bureau of International Labor Affairs

The Bureau of International Labor Affairs (ILAB) conducts research on and formulates international economic, trade, immigration, and labor policies in collaboration with other U. S. Government agencies and provides international technical assistance in support of U. S. foreign labor policy objectives. The Office of Financial Management Operations (OFMO) accounts for grants issued by ILAB.

As of September 30, 2002, we noted that ILAB grants had the following summary totals:

| | Obligations | Costs | Payments | Accounts Payable |
|---|---|---|---|---|
| Beg Balance | $120 million | $ 34 million | $11 million | $23 million |
| FY 2002 Activity | $ 84 million | $ 69 million | $15 million | $54 million |
| **Ending Balance** | **$204 million** | **$103 million** | **$26 million** | **$77 million** |

The majority of the ending accounts payable balance represents the year-end accrual for costs incurred but not yet reported by grantees. The OFMO accrual methodology was based on an estimate that 95.5 percent of the obligation will have been expended as of the end of the fiscal year. That is, an accrual entry is recorded in DOLAR$ to adjust total grant costs to equal 95.5 percent of the obligation. We found that the use of this method for estimating accrued costs at September 30, 2002, did not result in a reasonable estimate of the total costs incurred as of that date.

We selected a sample of 18 grants of which 17 belonged to ILAB and one belonged to OSEC. The sample results indicate that the FY 2002 year-end accrual was overstated by approximately $47 million. The majority of the sample had a June 30, 2002 cost report on file, and the accrual would represent the final quarter of the year only. We estimated that the September 30 accrual would approximate the June 30 actual reported costs (if a grantee reported $250,000 for the June quarter, we estimated the September accrual would also be around $250,000).

For example, Grant E9K00074IL had the following cost reports:

| | |
|---|---|
| 12/31/01 | $ 89,446 |
| 03/31/02 | $242,686 |
| 06/30/02 | $391,013 |
| **Total** | **$723,146** |

We estimated the accrual for September 30, 2002, should be about $391,000. However, management estimated the accrual as follows: obligations of $9,000,000 times 95.5 percent equals $8,595,000 minus recorded costs of $723,146 equals accrual of $7,871,854. Based on the cost history reflected on the existing cost reports, it is not feasible that the grantee would spend $7.8 million in the final quarter. Prior quarters averaged only about $300,000 per quarter. In addition, the total payments drawn by this grantee through September 30 was $983,855, only $270,000 more than reported costs. Based on these facts, we conclude that the accrual for this grant was overstated by about $7.5 million. Since the same accrual methodology was applied to all of the grants sampled, we concluded that the September 30, 2002, accrual was overstated by approximately $47 million.

We also noted that the accrual methodology is not documented, and does not include subsequent verification of the estimated accruals when the actual costs become known, as required by the cost accrual provisions of Grant Financial System Requirements, issued by the Joint Financial Management Improvement Program (JFMIP).

Finally, we noted that certain ILAB grants are coded in DOLAR$ as belonging to ILAB and others are coded as belonging to the Office of the Secretary. The grants should be under one code.

**Recommendations:**

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

1. **A formal written accrual methodology is developed that satisfies all JFMIP system requirements. The methodology should include procedures for the subsequent verification of the accrual accuracy, and procedures for adapting the methodology as necessary based on the verification results.**

2. **All ILAB grants are coded in DOLAR$ to the correct agency, ILAB.**

**Management's Response:**

The OFMO management agrees with the recommendation made by the OIG. Our current methodology of using 95.5 percent of the obligation less the recorded cost is not an adequate accrual method for the ILAB grants since these grantees do not spend their funds within one or two years. We did want to mention that there are three significant factors for the accrual overstatement:

1. The ILAB grant amounts almost tripled for FY02;
2. The ILAB grant cost reports are submitted twice a year instead of quarterly;
3. The audit took place for FY02 during the same time we were actually processing data in the system and we didn't have prior data to compare since these are mostly new grantees for foreign countries and these grants are for much longer periods of time.

OFMO will review our current methodology for ILAB grants and select a method of accruing more in line with the specifics types of ILAB grants. We will look at using one method for grantees that use their funds very quickly. We'll use another method for grantees in Foreign countries since they don't spend their grants timely and the grant reports are not received frequently.

The OFMO management cannot address a resolution to the second recommendation. The RCCs/appropriations which are set up in DOLAR$ are not handled by OFMO. This seems to be a DOLAR$ table maintenance issue. We always use the RCC coding structure received from ILAB agency "K" and cannot determine how and why the entry is showing up in the report as OSEC agency "4".

**OIG Conclusion:**

With respect to the first recommendation, we concur with management's plans to develop revised accrual methodologies. This recommendation is **unresolved** pending a specific action plan with timeframes for completion of the revised accrual methodologies.

With respect to the second recommendation, OFMO management should pursue correction of the ILAB grant coding in the Detailed Grant Report, to ensure that all ILAB grants are identified by only one code. This may involve interaction with the OCFO and other parties outside of OFMO. This recommendation is **unresolved**.

**Status of Prior Year Findings and Recommendations**

**Grant Accounting Errors**

In our FY 1999 audit (OIG Report No. 12-00-003-13-001), we identified significant errors in the recording of ETA's grants. We made the following recommendations:

- ***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 prior years, ETA stated that controls were in place to identify and correct grant errors on a timely basis, and that the data verification and edit checks developed in the Electronic Information Management System (EIMS) should alleviate these issues. While we do not concur that EIMS in and of itself will alleviate all potential accounting errors, we should note that the system is not yet complete. EIMS was first implemented in August 1999, with an estimated completion date of July 2000. This estimate was subsequently changed to FY 2001 for the WIA program, and FY 2002 for the remaining programs. Currently, EIMS remains incomplete and the data does not electronically interface with DOLAR$ even though the interface was an integral part of the original design. The data captured in EIMS must be manually manipulated before it can be entered into DOLAR$, a process that increases the risk of error and delays the posting of grant costs.

In FY 2002, we continued to note errors in our grants testing. Errors were noted at both the regional offices, which are not recorded through the EIMS system, and for national office grants. For example:

We identified over $20 million in negative cost entries posted to the PY 2000 Migrant grants (over 40 documents). These entries reversed costs recorded for prior periods and created advance balances in DOLAR$. Our review of the cost reports submitted by grantees indicated that there was no reduction of costs reported for these grants, and no justification for the negative cost entries recorded by ETA.

We noted negative entries totaling $232.2 million that were posted to certain Unemployment Insurance (UI) grants. Our research into this matter identified that the grants were set up in EIMS with the wrong grant code (these UI grants were coded with Wagner-Peyser codes). When the March 2002 cost reports were recorded, the entry reduced the UI grant costs to agree with the amount recorded on the Wagner-Peyser cost report. The negative cost entries were recorded by ETA even though the grantees had submitted final cost reports for the UI grants in prior periods, reflecting that the grants were fully spent.

At the regional offices, we noted errors in various Job Corps contracts selected for testing. Specifically, we noted old accounts payable that had been recorded in error and never cleared from the system, and instances where the amount recorded in DOLAR$ for obligations, payments and or costs did not agree to supporting documentation contained in the contract files.

We do not concur that the errors identified in our audit are immaterial, and conclude that these errors are indicative of internal control weaknesses. Our findings indicate that improved controls are necessary relative to detecting and correcting grant errors on a timely basis at the National and regional offices. Accordingly, this recommendation remains **unresolved.** Closure is dependent upon implementation of adequate policies and procedures for detecting and correcting grant errors on a timely basis, at both the National and regional offices.

**Management's Response:** ETA has started the development of the EIMS interface with DOLAR$. This project is on an aggressive schedule with plans to have it completed by the middle of 2003.

The purpose of the negative cost entries recorded in the DOLAR$ for the Migrant and Seasonal Farm Worker grants was to reclassify costs from the PY 2000 obligations back to the PY 1999 obligations to account for carry-over funds. At this point, the EIMS does not have a function to consider carry-over funds; ETA is in the process of addressing this issue. In the mean time, we are keeping track of carry-overs in an electronic file to prevent cost-entry errors. The coding in the EIMS has been reviewed and the UI and Wagner-Peyser codes have been corrected. ETA has developed an Accounting Procedures Manual that is being finalized. It will provide instructions on the process for re-classifying costs and contains guidance for the posting of costs for JC contracts. This manual will be issued by September 2003.

**OIG Conclusion:**

With regard to the Migrant grants, the OIG disagrees with ETA's response. We believe the entries recorded by ETA transferred the misstatements created by errors recorded in the PY 1999 grants to the PY 2000 grants, thereby understating these entries by over $20 million. We conclude that ETA should have corrected the errors originally recorded to the PY 1999 grants.

Nevertheless, we concur with ETA's plans to complete EIMS and develop a grants accounting manual that will include procedures to detect and correct errors on a timely basis. This recommendation remains **unresolved** pending our review of specific procedures outlined in the manual, and on favorable results of the FY 2003 audit.

### Delinquent Grantee Reporting

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

- ***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.***

In FY 2000, ETA stepped up its efforts to obtain and record delinquent cost reports from its grantees. While written procedures were not developed, ETA submitted a memorandum to the regional offices stressing the importance of obtaining delinquent cost reports and developed a report that identifies grantees with significant advance balances. In addition, features were added to the EIMS cost system to detect and report untimely reporting by grantees (for the WIA program only). Despite these efforts, our FY 2001 and FY 2002 audits continued to note delinquent reporting.

The September 30, 2002 Detailed Grant Report reflects numerous documents where grantees have not reported any costs since the grant's inception, even though the documents reflect large advance balances. The following provides a summary of these documents by fiscal year:

| Year of Obligation | No. of Documents | Reported Costs | Advance Balance |
|---|---|---|---|
| 1997 | 8 | 0 | $ 2.6 million |
| 1998 | 18 | 0 | 17.8 million |
| 1999 | 73 | 0 | 59.4 million |
| 2000 | 129 | 0 | 71.5 million |
| 2001 | 118 | 0 | 84.7 million |
| 2002 | 5* | 0 | 31.4 million * |
| | **351** | | **$ 267.4 million** |

* The documents listed for 2002 are limited to certain documents inspected during the audit. There are many other 2002 documents listed in the Detailed Grant Report with large advance balances, but in many cases a cost report would not have been due until after the end of the year.

ETA believes that the number and amount of missing cost reports is not material when compared to the number of grant documents managed by ETA since 1997 (over 19,000), and stated that it believes significant progress has been made over the years in reducing the number of grantees who are delinquent. We agree that progress has been made in this area, and note that the grants with zero reported costs and advances totaling $267 million reflect a decrease from the prior year ($534 million).

However, this data reflects only those instances where cost reports have never been submitted since inception of the grant. The September 30 Detailed Grant Report includes numerous grants where costs were recorded, but the grants still reflect large advance balances and reports are delinquent. For example, we identified the following:

| Document No. | Reported Costs | Advance Balance | Last Reported |
|---|---|---|---|
| AA10304DX0 | 22.5 million | 19.2 million | September 2001 |
| 5320599000 | 13.8 million | 1.1 million | December 2000 |
| Y77419BX0 | 11.1 million | 7.5 million | June 2001 |
| 1211990000 | 6.4 million | 4.2 million | September 1999 |
| AD10801EC0 | 1.2 million | 3.4 million | June 2001 |
| AB10360GS0 | 4.3 million | 2.3 million | December 2001 |
| AB10384GK0 | 1.3 million | 1.1 million | September 2001 |

While it is apparent that additional efforts are necessary to fully resolve this issue, ETA has improved its efforts to obtain missing cost reports and expressed its commitment to improve grantee monitoring. Recent efforts include the establishment of a workgroup to develop an oversight and monitoring plan and to address various grants management issues. Based on these facts, this recommendation is changed from **unresolved** to **resolved and open**. Resolution is dependent on our review of the policies and procedures developed by the workgroup pertaining to this issue, and on the audit results over delinquent reporting in the FY 2003 audit. In prior years, ETA management indicated that efforts would be made to identify those grantees that do not submit cost reports as "high risk" and that "high risk grantees would be placed on a cost reimbursement basis rather than continue to draw down funds in advance." We concur that the implementation of this policy would result in reduced delinquent grantee reporting.

**Management's Response:** An ETA workgroup developed a Grant Oversight/Monitoring Plan which is being reviewed; it will be issued once it is approved. Currently, ETA performs a cost analysis on a monthly basis. The analysis identifies all the non-S&E grants that have costs less than the payments at the footprint level. This information is currently provided to the national and regional offices. The November cost analysis will be forwarded to the GOTRs/COTRs. GOTRs/COTRs will be able to identify delinquent grantees/grants where costs are missing. GOTRs/COTRs will be asked to review this information and immediately provide feedback to the grantee regarding delinquent reporting.

**OIG Conclusion:**

We concur with ETA's plans to forward information on delinquent grantees to GOTRs/COTRs and encourage ETA to monitor this process to ensure that delinquent cost reports are obtained and recorded timely. This recommendation remains **resolved and open** pending our review of specific procedures developed by the workgroup and on favorable results of the FY 2003 audit.

**ETA Grant Closeout Process**

In our FY 1996 audit report (OIG Report No. 12-97-005-13-001), we reported certain internal control weaknesses for ETA's grant closeout process. We made the following recommendation:

- ***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.***

In FY 2000, the responsibility for closing ETA grants was moved to the Office of Grants and Contracts Management. Since that time, the Closeout Unit has made efforts to ensure that the closeout tracking system was accurate and complete, reduce the backlog of grants and contracts in closeout, and shorten the length of time grants are in the closeout process. The status reports prepared by the Closeout Unit reflect the following number of cases in the ending inventory:

| | |
|---|---|
| Grants in closeout at September 30, 1999 | 2,353 |
| Grants in closeout at September 30, 2000 | 1,810 |
| Grants in closeout at September 30, 2001 | 1,030 |
| Grants in closeout at September 30, 2002 | 879 |

While the number of grants in closeout reflects a steady decrease since FY 2000, our audit disclosed that the ending balance at September 30, 2002 is understated. The balance does not include certain regional office grants that expired but were not identified for closeout or included in the tracking system. These grants were excluded from the procedures used by the Closeout Office to identify expired grants. When grants are not forwarded for closure on a timely basis, the length of time from expiration of the grant to actual grant closeout is extended and the closeout is untimely.

We also noted that grants forwarded to the Office of Financial and Administrative Services (OFAS) for final certification are often retained for a long period of time, which slows down the closure process. As of September 30, 2002, 295 grants had been submitted to OFAS, but were not yet certified. Included on this list were very old JTPA grants (FYs 94, 95 and 96) for which the appropriations have been cancelled. The following is a summary of grants pending OFAS certification as of September 30, 2002:

| **Year Submitted** | **No. of Grants** |
|---|---|
| 1999 | 1 |
| 2000 | 46 |
| 2001 | 175 |
| 2002 | 73 |
| Total | 295 |

Many of these grants have been pending certification for a considerable amount of time. Our inquiries into this matter disclosed that priority was not placed on certifying these grants, and they were not moving through the certification process.

According to ETA, a grant closeout module is currently being designed that will streamline the closeout process and improve tracking of expired grants. Until this module is operational, the Office of Closeout has issued interim procedures to ensure that all expired grants are forwarded for closure, and that the existing closeout process is timely. This recommendation remains **resolved and open** pending the implementation of improved procedures for processing grant closeout on a timely basis, and on a notable reduction in the length of time for progressing grants and contracts through the closeout process, including the length of time required for final certification.

**Management's Response:** ETA's closeout module is under development; it will be implemented in 2003. The closeout module will allow ETA's closeout inventory to accurately reflect all expired grants and contracts, which will contribute to timely closure. A major result will be increased accountability and a more effective and efficient means of closing out grant and contracts consistent with DOL and federal regulations.

ETA currently uses the following process for closeout: At the beginning of each fiscal year, the Closeout Unit reviews and compares cases reflected in DOLAR$ against the cases reflected in ETA's closeout inventory. This procedure prevents the closeout inventory from being significantly understated. Any case identified in DOLAR$ that is not reflected in the closeout inventory will be reviewed to determine if the case should be added for closure.

**OIG Conclusion:**

We concur with the actions described in ETA's response. This recommendation remains **resolved and open** pending our review of the revised procedures in the FY 2003 audit, and on a notable reduction in the length of time for processing grants and contracts through the closeout process.

### Accounting for JTPA Transfers

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

***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:***

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

During FY 2001, a meeting was held with members of OIG and ETA staff, as well as the OIG and ETA solicitors. It was agreed at this meeting that ETA's solicitor would provide a legal opinion regarding the transfers (one had already been issued by the OIG attorney) and that the matter may be forwarded to OMB to determine the appropriate resolution. No further action was taken by ETA during FY 2002; however, according to management, the ETA solicitor recently decided not to issue an opinion on this matter, rather, the matter was referred to OMB for resolution. This recommendation remains **unresolved** pending our receipt and analysis of OMB's opinion regarding this issue.

**Management's Response:** ETA is waiting for OMB's opinion on this issue and will determine the next steps once this opinion is received.

**Grants Accounting Procedures**

In our FY 1997 audit report (OIG Report No. 12-98-002-13-001), we reported that the lack of written grants accounting procedures for ETA hampered the accuracy and consistency of the grants accounting function.

- ***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.***

Based on our site visits to the regional offices, we concluded that written procedures are necessary to provide consistency at the regions in areas such as: processing Job Corps invoices, reviewing data recorded in DOLAR$ for accuracy and completeness, certifying information recorded by grantees in EIMS, and monitoring grantees to ensure that cost reports are submitted or recorded in EIMS on a timely basis.

In FY 2001, due to the fact that many responsibilities for ETA's grants were shifted from the regions to the National Office, we extended this recommendation to include procedures performed at the National Office. In particular, we concluded that procedures were necessary to document the process by which EIMS grant costs are downloaded and recorded in DOLAR$, and the manual process used by ETA to allocate certain WIA costs between program components.

ETA indicated that it is willing to develop written grant accounting procedures and that this process will be coordinated with a workgroup recently established by ETA to address various grants management issues. This recommendation is changed from **unresolved** to **resolved and**

**open,** pending the issuance of written procedures which address the accounting functions performed at both the regional and national offices.

**Management's Response:** An ETA workgroup developed an extensive Accounting Procedures Manual for the regions. This manual was completed and issued to the Regional managers on February 21, 2003. ETA's National Office staff is drafting a second manual for use in the national office. This manual is expected to be issued by September 30, 2003.

**OIG Conclusion:**

We concur with the actions described in ETA's response. This recommendation remains **resolved and open** pending our review of the grant accounting manuals issued by ETA.

## 3. Unemployment Trust Fund

**Status of Prior Year Findings and Recommendations**

**Unemployment Insurance Benefit Overpayments**

In our FY 2001 audit (OIG Report No. 22-01-006-13-001), we reported certain deficiencies in the internal controls over Unemployment Insurance benefit payments. We identified that UI overpayment data collected by the Benefit Accuracy Measurement (BAM) unit reflect little improvement in the UI overpayment rates over the past several years, in fact, the overpayment rate remained relatively flat since 1989 at about 8.5 percent. Furthermore, while the BAM national average for overpayments is around 8.5 percent, some states reflect significantly higher overpayment rates. We also noted that the BAM data reflect significantly higher overpayments than those established and reported by the states' Benefit Payment Control (BPC) system, $2.3 billion versus $669 million, respectively. We discussed this difference with management, and were told that a significant portion of the $2.3 billion in overpayments represents instances which are either non-recoverable or are not detectable given current operating procedures. We made four recommendations, of which three were closed. The open recommendation follows:

***We recommended that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that OWS management:***

- ***Develop a written plan to utilize the data produced by the BAM unit as the impetus for improving internal controls over the benefit payment process. Specifically, the plan should address:***
  - ***procedures to analyze overpayment rates for purposes of identifying statistically valid improvement, or lack thereof, in overpayment rates at the national and state levels;***
  - ***methods to assist the states in developing system improvements, such as best practice studies; and***
  - ***improved monitoring of the states to ensure that corrective actions are implemented when necessary.***

In response to the prior year finding, management provided the OIG with a detailed corrective action plan and timeline, as well as descriptions of certain actions already put into place during FY 2002. The corrective action plan described planned changes to the methods in which BAM and BPC UI overpayments will be measured and compared, as well as proposed GPRA measures and goals. While we generally concur with the corrective actions described by management, certain actions listed on the final timeline were not fully described in the written plan, and certain decisions regarding the measurement of least-detectable and nonrecoverable overpayments have yet to be finalized. This recommendation is **resolved and open.** Closure is dependent upon the OIG's review of the final corrective action plan, and on our review of how the least-detectable and nonrecoverable overpayments will be measured.

**Management's Response:** On November 8, 2002, ETA's Office of Workforce Security provided the OIG with the requested plan for reducing unemployment insurance overpayments. The plan clarifies appropriate tasks for reducing overpayments; indicates completed tasks; and establishes firm, practical time frames for completing tasks.

**OIG Conclusion:**

As indicated in the draft report, we generally concurred with the actions described by management in their corrective action plan. However, certain actions listed on the final timeline were not fully described in the written plan, and management did not address how least-detectable and nonrecoverable overpayments would be measured and monitored. This recommendation remains **resolved and open.** Closure is dependent upon the OIG's review of the final corrective action plan, and on our review of how the least-detectable and nonrecoverable overpayments will be measured and monitored.

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

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

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

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

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

According to ETA, the following factors precluded reconciliations of FMRS and Treasury data during FY 2002: (1) implementation of a new program which added benefit payments not previously captured on ETA form 2112, (2) benefit payments from Reed Act funds which do not have a separate transaction code from administrative payments, thereby requiring manual adjustments for states, (3) state noncompliance with the requirements to adjust prior period 2112's to properly report withholding amounts, thereby requiring additional manual adjustments, and (4) state noncompliance to adjust unemployment insurance balances subsequent to prior years' reconciliations.

As a result, ETA has requested OMB approval to revise the ETA form 2112 to capture all current benefit information, and has stated its intention to review the FMRS to identify any programming changes necessary to prepare reconciliation reports and reduce or eliminate manual adjustments. When those and other future actions determined necessary to prepare reconciliation reports for the states are completed, ETA plans to conduct a quarterly reconciliation coinciding with the OCFO quarterly financial statements. ETA plans to begin this process no later than September 30, 2003.

We concur with the plans set forth by ETA, and consider these recommendations **resolved and open**. Closure is dependent upon initiation of the reconciliation and monitoring process and substantial correction of the ETA 2112s.

**Management's Response:** ETA is pleased that the OIG concurs with our plan. The plan is progressing according to schedule.

## 4. Job Corps Data Center Operations

**Status of Prior Year Finding and Recommendations**

In our FY 2001 CFO Findings and Recommendations (OIG Report No. 22-02-004-13-001), we reported that Job Corps does not have an adequate accounting system in place to process approximately $80 million (annually) of student allowance and bonus payments. Specifically, we noted that a general ledger was not maintained to record the financial activities of the Student Pay Allotment and Management Information System (SPAMIS). This system is maintained at the Job Corps Data Center in San Marcos, Texas.

***We recommended that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that the Office of Job Corps:***

- ***Require the current contractor for the Job Corps Data Center to provide a complete and accurate accounting of the resources transferred from DOL and resume operation of a general ledger system complete with a reconciliation process and other relative procedures.***

- ***Require Job Corps staff assigned to the data center to monitor and report on the progress of the data center in bringing the accounting records up to date, as well as ensuring that the processes put into place are performed on a routine basis as part of regular operations.***

Management concurred with our finding and proposed steps that would reestablish the general ledger and use it on a regular basis to assist in regularly reconciling banks statements against cash drawdowns and student payroll. During our FY 2002 audit, we found that Job Corps had purchased a new accounting software package. The implementation of this new system had been originally scheduled for completion by April 30, 2002. However, at the time of our audit in mid-August, the new system was nearing completion, but not fully operational.

As we could not test the information contained in the new accounting system, these recommendations remain **resolved and open** Closure is dependent on our review of the fully implemented system during our FY 2003 audit.

**Management's Response:** The original implementation date was not met due to problems encountered in installation of the new accounting system for the general ledger. All of the problems have been resolved, and the system was implemented in September 2002. An updated status report was provided to the OIG in October. The system will be reviewed by the OIG during their FY 2003 audit.

# Management Advisory Comments

# Management Advisory Comments

## 1. Procurement

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

**Purchase Card Activity**

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

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

Our audit results for FY 1999 through FY 2001 have identified the following weaknesses:

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

We made the following recommendations at the Department level:

In the FY 1999 management advisory report (OIG Report No. 12-00-006-13-001), we recommended that the Chief Financial Officer and the Assistant Secretary for Administration and Management:

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

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

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

Our FY 2002 audit revealed that although there has been some progress, weaknesses remain. At the Departmental level, we noted the following:

Management informed us that its revised credit card policy manual is expected to be issued in March 2003. In the meantime, OASAM stated, it will prepare a memo to the agencies that will emphasize what supporting documentation is required. This memo had not been completed at the time of our fieldwork.

During FY 2002, OASAM did not issue any interim guidance on the consequences (such as the suspension or revocation of cards) of missing or untimely statements. However, OASAM did indicate that it will incorporate this guidance in its new policy manual expected to be completed in March 2003.

OASAM performed a procurement review of BLS in FY 2002, including BLS' credit card training. In response to the recommendation that OASAM ensures that responsible personnel are trained on credit card procedures, OASAM also referred agencies to outside training, such as that conducted by GSA. OASAM has not completed the procurement management reviews and the assessments at all of the agencies related to credit card training.

As a result, these three recommendations are **resolved and open**, pending receipt and review of the revised purchase card policy manual, the completion of the procurement reviews, and completion of the training assessments.

**Management's Response:**

For accuracy and completeness, the draft report should reflect that OASAM has taken or scheduled for implementation the following responsive actions:

In August 2002, DOL Spotlight Number 764 was issued to employees, outlining responsibility for safeguarding and proper use of DOL purchase cards. It specifically highlighted responsibility to: (1) safeguard the storage and availability of purchase cards, (2) ensure that only authorized official purchases are made, (3) train cardholders, and (4) the non-transferability of purchase cards to other individuals.

The DOL Purchase Card Handbook is currently being updated to reflect policy changes, ncluding restricted or prohibited purchases, ethics and record retention requirements, reconciliation of statements, and purchase card logs. In addition, criteria will be included that will be used to determine if, when, and how credit card accounts are to be suspended or terminated indefinitely (e.g., abuse or change in employment of the cardholder). The revised Handbook will be issued by the end of the 2nd quarter in FY 2003.

A standardized checklist for Agency/Organization Purchase Card Coordinators to use when reviewing purchase card accounts and a desk reference for cardholders is being developed. This checklist will allow A/OPCs to periodically review their Agency purchase card programs for compliance with established departmental thresholds, limitations and training requirements. This guidance is scheduled for implementation by the end of the first quarter of FY 2003.

In January 2003, OASAM will host a Purchase Card Conference in Washington, D.C. The conference will be directed to A/OPCs, approving officials and others from the procurement community. It is aimed at establishing a more uniform approach to managing the purchase card program. The conference will be used to promote increased oversight and control of the purchase card program and ensure the appropriate use of the card. As part of the conference, we will include training on verification/reconciliation of cardholder purchases, required documentation (including procedures in cases of missing cardholder statements or lack of adequate documentation) and information on purchasing limits. In addition, Citibank will conduct training on how to query special and ad-hoc reports.

OASAM is working with agency financial management servicing offices to implement a training program for all current and new cardholders, approving officials, and A/OPCs. Employees with purchase cards have sixty days from the date of their appointment to complete the training, or for employees already on board, 60 days from December 13, 2002 as outlined in the memorandum entitled "Mandatory Purchase Card Training." The General Services Administration (GSA) currently offers free web-based purchase card training for cardholders and approving officials. These courses will be the primary tool to conduct the training, and will be supplemented by other sources as the need arises. OASAM is continuing to conduct procurement management reviews to confirm compliance with departmental guidance and procedures. The most recent review involved the Mine Safety and Health Administration and was conducted during September 9-12, 2002.

We continue to consider all three of these recommendations **resolved and open** and expect that full implementation of the foregoing actions will close the above findings. As each milestone is accomplished, we will provide you with the necessary documentation so that your report can be updated.

**OIG Conclusion:**

Based on management's response, these recommendations remain **resolved and open**, pending our review of the implementation of corrective action during the FY 2003 audit.

## 2. Black Lung Disability Trust Fund

**Status of Prior Year Findings and Recommendations**

**Inaccurate Responsible Mine Operator (RMO) Accounts Receivable Balances**

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

The following recommendation remains open:

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

During the previous fiscal year, DCMWC stated that the Enforcement Section staff would update the accounts receivable records for cases in the Solicitor's Office to reflect the total amount of benefits paid. During our audit testing for FY 2002, we noted that only 3 of 15 accounts had correct balances. The remaining 12 accounts were not updated with benefits and or medical bills for monies paid in the past 12 months. Therefore, this recommendation remains **resolved and open.** Closure is dependent on the results of the FY 2003 audit.

**Management's Response:**

An accounting code for enforcement cases and related system reports, critical elements in complying with the OIG recommendation that these cases be updated at least once a year, were completed in the first quarter of FY 2003 concurrent with the audit work in progress for FY 2002. The code and reports are tools that simplify an annual update of the accounts receivable and facilitate general monitoring of the accounts. These system-generated reports identify total benefits paid in enforcement cases since the last update of the account receivable. Those amounts can be added periodically to the account receivable.

Following discussions with OIG auditors of the audit findings in FY2001, DCMWC staff updated the accounts receivable records on enforcement cases. This activity took place at the very end of FY 2001 (9/28/01) and the beginning of FY2002. Of the 15 cases sampled during the FY 2002 audit, 11 were updated during this period. Of the remaining four cases, three were found to have no exceptions and one was updated in July.

Discussions with auditors during the FY 2002 audit work revealed their preference for the accounts to be updated at the end of a fiscal year rather than at the beginning to reflect the most accurate total receivables at the year's end. Therefore using the reports that are now available through use of the accounting code for enforcement cases, the accounts will be updated in the fourth quarter of the fiscal year.

**OIG Conclusion:**

This recommendation remains **resolved and open.** The accuracy of the RMO Accounts Receivable balances will be reviewed during the FY 2003 audit. Closure is dependent on the results of the FY 2003 audit.

**Suspense Account in Black Lung Accounting System (BLAS)**

The FY 1998 DOL Management Advisory Comments (OIG Report No. 12-99-009-13-001) reported that the Black Lung Accounting System (BLAS) had a suspense account with a balance of approximately $7.5 million as of September 30, 1998. Many amounts in the suspense account relates to complex bankruptcy issues or repayment of funds embezzled by former employees. The account also contains unresolved cash receipts dating back to 1985. Because of this situation, individual account receivables in BLAS do not always reflect the correct balance. We made the following recommendations:

- ***The Chief Financial Officer and the Assistant Secretary for Employment Standard ensure that the suspense account is substantially cleared and procedures developed to ensure it remains only a temporary clearinghouse for unidentified receipts. Procedures should include the following:***

  - ***Research and resolve the amounts in the suspense account that have been outstanding for more that one year, beginning with the amounts in the account for the longest period of time, i.e., starting with the 1985 amounts.***

  - ***Implement a policy and procedure, that requires that items temporarily placed in the suspense account be resolved within a prescribed time frame, which should not be longer than one year.***

From our FY 2002 audit work, we found that, although the balance in the suspense account has been reduced substantially (from $7.5 million in FY 1998 to $1.5 million in 2002), the amount still needs to be resolved and applied to proper accounts receivable. While several of the amounts in the account still date back to 1985, we found that the Division of Coal Mine Workers' Compensation (DCMWC) did review the suspense account, compare it to the receivables account, and resolve the amounts on a monthly basis. A reduction in the suspense account of 11 percent ($1.7 million in FY 2001 to $1.5 million in FY 2002) has occurred as a result of management's monthly review. Additionally, an accounting solution has not been developed for non-claimant related monies that belong to the Black Lung Disability Trust Fund (BLDTF) (repayment of embezzled monies).

In FY 2002, DCMWC also stated that an *informal* policy was in place to resolve old and current amounts contained in the suspense account. However, DCMWC has not developed policies and procedures to research and resolve the amounts in the account for more than one year nor has it implemented written policies and procedures that require items temporarily placed in the suspense account to be resolved within one year.

The first recommendation remains **resolved and open** pending a corrective action plan that includes the resolution of old accounts (1985 forward). The second recommendation remains **resolved and open** pending the implementation of the written management policy to resolve current accounts within a prescribed timeframe not to exceed one year.

**Management's Response:**

Response to First Recommendation: As noted in the audit report, in FY 2002 DCMWC reduced substantially (from $7.5 million to $1.5 million) the suspense account balance. We continue to address this recommendation and, subsequent to the end of Fiscal Year 2002, have taken additional steps and eliminated a substantial portion of the remaining suspense files:

- A computer program was developed which identified suspended transactions that were older than two years.
- Following extensive research on these cases the program determined that there was no possibility of resolution based on existing information and deleted them from the suspense account.
- The files so deleted were written to a CD-ROM in case posting information for these transactions ever becomes available.
- As a result of the stated policy on management of the suspense file (Director's memorandum of June 16, 2002) and the steps initiated to resolve suspended transactions, the suspense file currently has been reduced further to $550,542 for which there is a reasonable expectation of resolution.

Response to Second recommendation: As recommended, new procedures have been established for reviewing items in the suspense account.

- A report of suspended items with specific (but incomplete) identifying data elements is distributed once a month to each District Office (DO).

- District Office personnel research these reports and determine the proper data elements needed to affect posting of the items and request the National Office (NO) accounting section to correct the file and post to the account receivable.

We believe, however, that policy requiring suspense file account resolution within two years is more realistic than the single year recommended by the auditors. Requisite identifying information, given appeals and other unavoidable delays, is often received over a year after the account is set up making it impossible to meet a one-year resolution time frame.

**OIG Conclusion:**

These recommendations are now **resolved and open.** The adequacy of the efforts undertaken to write-off old and outstanding balances and the procedures established by DCMWC to resolve suspense items established subsequent to the audit will be reviewed during the FY 2003 audit. Closure is dependent upon the results of the FY 2003 audit.

## 3. Accounting For Grants

**Status of Prior Year Finding and Recommendation**

**Tracking Grant Closeout**

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

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

In FY 2002, no actions were taken by management regarding this recommendation; therefore, this recommendation remains **unresolved**. Resolution is dependent upon development of an appropriate corrective action plan.

**Management's Response:**

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

**OIG Conclusion:**

This recommendation remains **unresolved** pending our review of management's functional requirements analysis for the new system.

## 4. Performance Measures

**Status of Prior Year Findings and Recommendations**

The following prior year audit recommendations were issued in the cited audit reports directly to the appropriate Assistant Secretary. We request that the CFO work with the respective Assistant Secretaries to address these recommendations.

**Unemployment Trust Fund**

Two recommendations are **resolved and open** from OIG Report No. 03-93-034-03-315, and one recommendation is **resolved and open** from OIG Report No. 03-95-011-03-315. The open recommendations and current status are as follows:

- ***The total amount of claimant overpayments outstanding at the beginning of the fiscal year plus the amount of overpayments established and recovered during the fiscal year should be included as a baseline measurement.***

With the implementation of the Benefit Accuracy Measurement (BAM) program, management initiated action to collect overpayment and underpayment information, and subsequently review this data in their quality control process (BAM). The current GPRA measure utilizes a broad-based approach and states "Unemployed workers receive fair unemployment insurance benefit eligibility determinations and timely benefit payments." However, Unemployment Insurance Program Letter (UIPL) No. 33-02 dated July 31, 2002, proposes operational definitions for UI overpayments and GPRA measures addressing the overpayment problem. The UIPL was vetted with state partners for their input, and should result in new GPRA measures for FY 2003. Until full implementation of its new measures, this recommendation remains **resolved and open**. OIG will review all FY 2003 GPRA measures and evaluate this issue for closure at that time.

**Management's Response:**

ETA is pleased to report that the GPRA goal for FY 2003 was changed to the following to be more responsive to current concerns – "Make timely and accurate benefit payments to unemployed workers, facilitate the reemployment of Unemployment Insurance claimants, and set up Unemployment Insurance tax accounts promptly for new employers."

To meet this goal, ETA established the following measure to specifically reduce overpayments – "Establish for recovery at least 59percent of all estimated detectable overpayments."

**OIG Conclusion:**

This recommendation remains **resolved and open**. OIG will evaluate OWS' GPRA measure, including baseline data, during the FY 2003 audit.

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

In December 2001, OWS received clearance to implement the UI Data Validation system nationwide. At this point, about one third of the states have been trained in the system and are implementing it. The target date for UI Data Validation program implementation is estimated at

July 2003. This recommendation remains **resolved and open**. We plan to schedule audit follow-up work after the UIDV program is fully implemented to evaluate whether this recommendation can be closed.

**Management's Response:**

OWS is implementing a system that will validate about 1200 of the 2400 elements states must now report: The most important data elements will be validated; between UIDV and BAM reviews, we have systems to validate three of the four UI GPRA indicators (the fourth indicator cannot be validated because it is not yet implemented). We will await the results of OIG's planned follow-up audit designed to close this finding.

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

At this time, OWS management has not increased the validation period to an entire year. Management has undertaken an initiative to standardize approximately 2,400 data elements. Currently, they validate one month's or quarter's data using both quantity and quality validation. This is to ensure that the validations can be accomplished at reasonable cost. Extending the validation period should only marginally increase costs once programming is completed to create an automated environment (that is not manpower intensive). States can then be encouraged to validate additional quarters and compare results with completed quarters. This issue remains **resolved and open**. The UIDV system must be fully implemented and the validation period increased to close this recommendation. We will perform audit follow-up work in FY 2003 after the program is fully implemented.

**Management's Response:**

Because most reports are fully automated, a test and correction of report-writing code over a short period of time is as good as over a longer period, ETA does not believe there is value in lengthening the validation period.

**OIG Conclusion:**

The OIG does not concur with management's position that there is no value in lengthening the validation period. Given this circumstance, the OIG considers the status of this recommendation to be changed from **resolved and open** to **unresolved**, and will perform audit followup work to validate ETA's belief that there is not sufficient value in lengthening the validation period. A major consideration will be the estimated cost of increasing the validations compared to the return on this investment. Once an audit is completed, we can work with ETA officials to resolve this issue.

**Occupational Safety and Health Administration (OSHA)**

In OIG Report No.05-95-003-10-001, we made the following recommendation:

- ***We recommended that OSHA continue development of meaningful and relevant measures of OSHA's performance that can be linked to program costs.***

During FY 2000, OSHA participated in a pilot project conducted jointly by the OCFO and a contractor to apply cost accounting principles to the activities of the Voluntary Protection Program. This pilot was an initial step toward recognizing and understanding the problems and opportunities involved in implementing a cost accounting system. OSHA has not developed the capacity to consolidate data from a variety of financial and other system sources to link financial data to performance measures. OSHA is limited by the current agency and departmental financial and personnel systems and their incompatibility. This recommendation remains **resolved and open**. Once OSHA can match program costs to GPRA measures, this recommendation can be closed.

**Management's Response:**

OSHA has implemented a performance measurement system in accordance with the agency's Strategic Plan. OSHA remains committed to developing a cost accounting approach as part of its performance monitoring, and will continue to work with Office of the Assistant Secretary for Administration and Management and the Office of the Chief Financial Officer to implement this recommendation.

**OIG Conclusion:**

This recommendation remains **resolved and open** until OSHA performance measures can be linked to program costs.

**Employment Standards Administration (ESA)**

In OIG Report No.22-02-006-04-431, we made the following recommendation:

- ***We recommended ESA require DFEC to establish a time line for developing and placing in operation a system that links performance measures, associated costs, and the budget.***

DFEC currently does not match program costs to performance measures and comply with the intent of Statement of Federal Financial Accounting Standards No. 4 (Managerial Cost Accounting Concepts and Standards for the Federal Government). Specifically this standard requires agencies to accumulate and report the full costs of accomplishing its performance measures. This recommendation remains **unresolved** until DFEC provides a corrective action plan to the OIG.

**Management's Response (ESA):**

OWCP has prepared a draft timeline that moves DFEC into a full cost-accounting environment based on performance by FY 2005. A copy of the draft timeline will be submitted under separate cover.

**Management's Response (OASAM):**

In view of the need for a coordinated, Departmental approach to the integration of performance, budget and cost accounting, recommendations should not be directed to individual agencies to establish independent systems and time lines for linking performance measures, associated costs, and the budget. In response to the President's Management Agenda, the Department has developed a plan with time lines to accomplish budget and performance integration, and this plan has been accepted by the Office of Management and Budget, resulting in a progress score of Green. DFEC and all other agencies will adhere to the Department's plan. Accordingly, the status of this recommendation should be changed to resolved and closed.

**Management's Response (OCFO):**

The OCFO concurs with the OIG's recommendation.

**OIG Conclusion:**

The recommendation that ESA require DFEC to establish a timeline for developing and to place in operation a system that links performance measures, associated costs, and the budget, remains **unresolved** pending OIG's review of a corrective action plan that includes an appropriate timeline assuring a full cost accounting environment for OWCP. During the FY 2003 audit, we will also revisit this recommendation in response to any departmental managerial cost accounting plan that may be developed.

## 5. Miscellaneous Revenues

**Status of Prior Year Finding and Recommendation**

**Working Capital Fund Allocations**

Our FY 1999 audit (OIG Report Number 12-00-006-13-001) reported that the method used to allocate object class No. 2507, Forms and Publications, does not allocate expenses incurred on an appropriate basis.

- ***We recommended that the Chief Financial Officer ensures that a method is developed for allocating forms and publication costs which provides an equitable allocation of such costs based on actual usage.***

In FY 2002, the Department indicated it plans to select a contractor to review its cost recovery and pricing methodology for the Working Capital Fund. Two proposals have been submitted to the DWCFF for consideration. The DWCFF anticipates the project will be completed in FY 2003. Therefore, this recommendation is **resolved and open**, pending completion of the WCF cost recovery and pricing methodology review.

**Management's Response:**

The Office of the Chief Financial Officer, Working Capital Fund Financing, met with Mr. Denard Southall from the Office of the Assistant Secretary for Administration and Management to discuss current methodology used to allocate object class 2507, Forms and Publications to the Department of Labor agencies. The current procedure includes three sources of costs and cost assignment processes:

1) Type 2-Allocation of known usage: The system allocates costs to a series of users benefiting from the services (agreement holders) based on reported usage of the identified service.

2) Warehouse-Forms & Publications Issuances Per Line Item: Tasks performed to support this charge occurs when the customer submits a requisition for forms/publications to OASAM. The warehouse staff have to enter each separate line item listed on the requisition form into a computer, identify the location and availability of the item(s) requested, generate a pick list, locate and remove the item from the shelves, and prepare the item(s) for shipment. The requisition can include one to multiple items and the level of effort is dependent on the number of items on the requisition form.

3) Warehouse-Forms & Publications Issuances Per Requisition Filled: The tasks performed to support this charge are based on a pre-determined charge per requisition for paper stock from the requesting agency. The level of effort to fill one requisition does not vary substantially and one standard rate approximates the services rendered to fill a standard requisition. The cost to measure, record and separately bill for this service would be cost prohibitive and would not provide a benefit to either OASAM or the requesting DOL agency.

The Office of the Chief Financial believes the allocation methodology is correct and complies with the current Working Capital Fund Policy and Procedures.

The Office of the Chief Financial Officer is responsible for ensuring that agencies are equitably charged for the WCF services they receive. Therefore, the pricing strategies used to determine these charges undergo a biennial review. The OCFO will review its work plans for FY 2003 and schedule a time and obtain the resources to review and/or update pricing strategies for FY 2003.

**OIG Conclusion:**

This recommendation remains **resolved and open**. Closure is dependent on OIG review of the results of the biennial review of WCF cost recovery and pricing strategies in FY 2003.

## 6. Unemployment Trust Fund

**Status of Prior Year Finding and Recommendation**

**Unemployment Compensation Advisory Council**

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

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

As of FY 2002, a new UCAC has not been established, nor has a time frame been provided as to when another council would be discussed or established. This recommendation remains **unresolved** pending establishment of a UCAC.

**Management's Response:**

The Assistant Secretary for Employment and Training will discuss the establishment of this council with the Secretary of Labor.

**OIG Conclusion:**

This recommendation remains **unresolved** pending establishment of a UCAC.