
Office of Inspector General
Audit Report

*Labor Costs for Facilities
and Equipment Projects*

Federal Aviation Administration

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U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Memorandum

Subject: **INFORMATION:** Report on Labor Costs for Facilities
and Equipment Projects, FAA
FE-1999-119

Date: August 4, 1999

From: John L. Meche 
Deputy Assistant Inspector General for Financial,
Economic, and Information Technology

Reply To

Attn Of: Meche:x61496

To: Assistant Administrator for Financial Services
Federal Aviation Administration

This report presents the results of our audit of the Federal Aviation Administration (FAA) labor reporting system for facilities and equipment projects. Our objective was to determine whether labor costs were accurately reported and adequately supported, and to assess the design of the labor system to ensure accurate recording of labor hours and reasonable estimates of labor costs for use in financial statements. This audit was performed in conjunction with our Chief Financial Officers Act responsibilities to opine on FAA's Financial Statements for Fiscal Year (FY) 1999.

RESULTS IN BRIEF

The FAA labor system for facilities and equipment projects provides adequate support for accumulating reasonable estimates of labor costs for financial statement reporting purposes. This audit did not address whether FAA used appropriate costing methodologies to accumulate and assign costs for facilities and equipment projects in accordance with the Statement of Federal Financial Accounting Standard Number 4, Managerial Cost Accounting Concepts and Standards. We will address this issue as a separate audit of FAA's cost accounting system. We reviewed \$9 million of labor costs recorded on 36 facilities and equipment projects from \$425 million in the Work-In-Process account, and found a net understatement of about \$55,000. Although the understatement was insignificant, we found the labor system could produce more accurate results if FAA ensures managers, supervisors, and employees are aware of their responsibilities and properly use the labor system. FAA agreed with our recommendation and immediately initiated corrective action.

BACKGROUND

The Department of Transportation Consolidated Uniform Payroll System (CUPS) is not capable of capturing labor costs by project. As a result, FAA developed an electronic labor cost system that captures direct labor hours for facilities and equipment projects. On a monthly basis, FAA regions transmit labor data to the Departmental Accounting and Financial Information System (DAFIS). Using data from the labor system, and pay and benefits data from CUPS, DAFIS computes monthly labor rates on a regional basis, and then charges each project at the labor rate for the hours worked on each project. The rates also are used in billing labor costs on reimbursable projects.

FAA's electronic labor system was implemented in FY 1994, and was designed for FAA employees working on facilities and equipment projects to electronically account for daily hours worked by project number on a biweekly basis. Accurate monthly labor rates are dependent on employees recording, and supervisors approving, time charged to each project in the appropriate reporting period. Failure to input time into the labor system in the month it occurs affects the accuracy of the monthly labor rate, and the labor cost recorded on projects. The system does not recompute prior monthly labor rates as a result of incomplete time sheets or other errors. These types of adjustments must be made during the current reporting period.

SCOPE AND METHODOLOGY

FAA determined labor cost represents 13 percent, or an estimated \$425 million, of the \$3.2 billion Work-in-Process account as of December 1998. Because this is a material amount and is supported through an electronic labor reporting system, we determined separate testing of this system was warranted. In completing this audit, we visited the Mike Monroney Aeronautical Center in Oklahoma City, Oklahoma, to obtain a basic understanding of FAA's system for capturing, computing, and reporting labor costs on facilities and equipment projects. We reviewed the reasonableness of about \$9 million of labor costs recorded in DAFIS on 36 active projects randomly selected at seven FAA regional offices as of January 31, 1999. We traced labor hours recorded on individual time sheets to hours recorded in DAFIS reports. Interviews were conducted with appropriate management officials to assess internal controls over the labor reporting process, and tests were conducted to ensure labor costs incurred were charged by facilities and equipment funded employees.

As part of this audit, we did not perform any tests related to FAA's compliance with the concepts and standards contained in Statement of Federal Financial Accounting Standard Number 4. The standard represents Generally Accepted Accounting Principles for government agencies in the area of managerial cost accounting. The standard sets forth the fundamental elements of managerial cost accounting. These

are: (1) accumulating and reporting costs of activities on a regular basis, (2) establishing responsibility segments to match costs with output, (3) determining full costs of government goods and services, (4) recognizing the costs of goods and services among Federal entities, and (5) using appropriate costing methodologies to accumulate and assign costs to outputs.

We relied on the results of the work we performed as part of our review of FAA's FY 1998 Financial Statements of CUPS data to ensure its accuracy and consistency with DAFIS reports. We concluded from this work that CUPS data were consistent with DAFIS reports and can be relied upon.

The audit was conducted in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States. The work was performed between March and May 1999.

ANALYSES AND RESULTS

The labor system provides adequate support for accumulating reasonable estimates of labor costs on a project basis for financial statement reporting. The system contains edit checks to identify labor reports that are missing, extra, and unsigned. The system also provides an alert if an employee claims in excess of 80 hours per pay period. Each labor report must be approved electronically by a project manager.

FAA has additional edit checks to ensure the job order number charged is valid. The job order number must be established as a master record and be in an active status. If an employee charges to a reimbursable job order number, a reimbursable agreement must be on file. If these conditions are not met, the charge will be rejected.

Of the \$9 million of labor cost recorded on 36 facility and equipment projects, we found inaccuracies totaling \$157,203, with a net understatement of about \$55,000. Although this amount was not material to the financial statements, we found the accuracy of the labor system could be improved, as shown in the example below.

- As of January 1999, FAA had recorded \$310,075 in labor costs for 4,211 hours charged to a project. Time records showed the time on two biweekly time sheets was incorrectly entered in the labor system. One time sheet was entered at 51.5 hours instead of 15.5 hours, and the other was entered at 595 hours instead of 59.5 hours. This resulted in the project being overcharged by about \$37,000. Transposition errors of this type should no longer occur since the region has now fully implemented the electronic system. The project also was undercharged by \$6,586, because one biweekly labor hour record was erroneously transmitted to DAFIS. Consequently, the labor costs on this project were overstated by \$30,350.

The primary causes of the inaccuracies included:

- Supervisors did not ensure that employees submitted accurate records of hours worked.
- Labor hour records were not entered, approved, and transmitted to FAA accounting by the prescribed due dates.
- Labor charges for different pay periods were not processed separately.
- FAA accounting did not always review and reconcile transmitted data and requests for correction.

RECOMMENDATION

We recommend FAA make all managers, supervisors, and employees who use this labor system aware of our audit results, and instruct them in the proper implementation and associated individual responsibilities to ensure accuracy of the labor system.

MANAGEMENT COMMENTS

We discussed our audit results with the Acting Director, Office of Financial Management, and Program Director, Resources Management Program. They concurred in our recommendation, and issued guidance on corrective actions needed to ensure the inaccuracies are not repeated. FAA employees and supervisors were directed to:

- Use the automated program each pay period to ensure all labor hour records are received on time.
- Process each pay period separately.
- Promptly submit data to accounting with an accurate description of the pay period.
- Scrutinize and reconcile transmitted data and requests for correction.

ACTION REQUIRED

Since corrective actions have been completed, no response to this report is required. We appreciate the courtesies and cooperation of FAA representatives. If you have questions, please call me at (202) 366-1496, or Harry Fitzkee at (410) 962-3612.

