

**DATE:** January 7, 2005

**MEMORANDUM FOR:** JONATHAN L. SNARE  
Acting Assistant Secretary for  
Occupational Safety and Health

**FROM:** *for* *Deborah Curtis*  
ELLIOT P. LEWIS  
Assistant Inspector General  
for Audit

**SUBJECT:** Indiana Department of Labor OSHA Consultation Grants Audit  
Report Number 05-05-004-10-105

The attached subject report is submitted for your resolution action. We request a response to the report within 60 days.

It is your responsibility to transmit the report to grantee officials for resolution.

If you have any questions concerning this report, please contact Charles M. Allberry, Regional Inspector General for Audit, in Chicago at (312) 353-2416.

Attachment

**Department of Labor**  
**Office of Inspector General—Office of Audit**

**Occupational Safety and Health  
Administration**



# **Indiana Department of Labor**

**OSHA Consultation Grants  
October 1, 1999 through September 30, 2002**

**Date Issued: January 7, 2005  
Report Number: 05-05-004-10-105**

# BRIEFLY...

Highlights of Report Number: 05-05-004-10-105, to the Acting Assistant Secretary for Occupational Safety and Health.

## WHY READ THE REPORT

The Occupational Safety and Health Administration (OSHA) provides grants to states for free consultation services to employers. This is authorized under Section 21(d) of the Occupational Safety and Health Act. Primarily targeted for smaller businesses, this safety and health consultation program is completely separate from OSHA inspections. No citations are issued or penalties proposed. Because the consultation is a voluntary activity, employers must request it. During the consultation, employers learn about potential hazards at their worksite. The employer learns not only what needs to be improved, but what it is doing right. The employer and consultant discuss problems, possible solutions, and abatement periods to eliminate or control any serious hazards identified through the walk-through.

## WHY OIG DID THE AUDIT

OSHA awarded grants to the Indiana Department of Labor (IDOL) to operate its consultation program. During the period October 1, 1999 through September 30, 2002, IDOL received over \$1.9 million in Federal funds and the State of Indiana provided IDOL an additional \$220,555.

The objective of our audit was to determine whether these funds were expended in accordance with the requirements of 29 Code of Federal Regulations (CFR) 97, Office of Management and Budget (OMB) Circular A-87 Cost Principles, and specific grant provisions.

## READ THE FULL REPORT

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

<http://www.oig.dol.gov/public/reports/oa/2005/05-05-004-10-105.pdf>

JANUARY 2005

## INDIANA DEPARTMENT OF LABOR OSHA CONSULTATION GRANTS

### WHAT OIG FOUND

The OIG selected a statistical sample of travel vouchers and a judgmental sample of all other line items on the Financial Status Reports submitted to OSHA. We found that:

1. Grant funds were not always expended in accordance with 29 CFR 97.
2. Some grant costs were not allowable in accordance with OMB Circular A-87.
3. Indiana did not comply with some provisions of the grant agreements.

The overall cause for the problems we identified was a lack of adequate internal controls and management oversight to ensure that procedures were followed.

### WHAT OIG RECOMMENDED

We recommended that the Acting Assistant Secretary for Occupational Safety and Health:

- Recover \$136,241 and
- Direct IDOL to:
  - 1) Ensure costs claimed on the Financial Status Reports are adequately supported in the general ledger,
  - 2) Allocate employee costs to the grant using time reports, and
  - 3) Expend funds only for activities related to and/or listed in the grant agreements.

IDOL concurred with Finding 1 and generally disagreed with, or did not respond to, Findings 2 and 3.

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## Executive Summary

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We conducted an audit of the 21(d) grants awarded to the Indiana Department of Labor (IDOL) by the Occupational Safety and Health Administration (OSHA) to operate its consultation program for the period of October 1, 1999 through September 30, 2002. IDOL received over \$1.9 million in Federal funds and the State of Indiana provided IDOL an additional \$220,555. IDOL reported grant costs of approximately \$2.07 million during this period.

The purpose of our audit was to determine whether funds were properly expended. To determine this, we wanted to determine the answers to the following questions:

1. Did Indiana expend funds in accordance with the requirements of 29 CFR 97?
2. Did Indiana expend funds in accordance with the requirements of OMB Circular A-87 Cost Principles?
3. Did Indiana expend funds in accordance with specific grant provisions?

Our audit resulted in questioned costs of \$136,241 due to the following instances of noncompliance:

### 29 CFR 97

- Double billings (\$7,519)
- Unsupported claims (\$47,732)

### OMB Circular A-87

- Improper costs (\$1,079)
- Unallowable costs (\$2,717)
- Misallocated costs (\$8,350)

### Specific Grant Provisions

- Unauthorized salaries (\$41,090)
- Unapproved equipment (\$27,754)

We issued a draft report to IDOL on September 30, 2004. However, IDOL officials declined our offers for an exit conference in person or by teleconference. On December 3, 2004, IDOL provided a written response to the findings in our draft report. IDOL concurred with our questioned costs in Finding 1 and generally disagreed with, or did not respond to, Findings 2 and 3. As a result, our recommendations remain unchanged.

We recommend that the Assistant Secretary for Occupational Safety and Health:

- Recover \$136,241 and
- Direct IDOL to:
  - 1) Ensure costs claimed on the Financial Status Reports (FSRs) are adequately supported in the general ledger,
  - 2) Allocate employee costs to the grant using time reports, and
  - 3) Expend funds only for activities related to and/or listed in the grant agreements.

**U.S. Department of Labor**

Office of Inspector General  
Washington, DC. 20210



## **ASSISTANT INSPECTOR GENERAL'S REPORT**

Jonathan L. Snare  
Acting Assistant Secretary for  
Occupational Safety and Health

We have audited the 21(d) grants awarded to the Indiana Department of Labor (IDOL) by the Occupational Safety and Health Administration (OSHA) to operate its consultation program for the period of October 1, 1999 through September 30, 2002. See Appendix A for additional background information.

The purpose of our audit was to determine whether funds were properly expended. To determine this, we wanted to determine the answers to the following questions:

1. Did Indiana expend funds in accordance with the requirements of 29 CFR 97?
2. Did Indiana expend funds in accordance with the requirements of OMB Circular A-87 Cost Principles?
3. Did Indiana expend funds in accordance with specific grant provisions?

We conducted the audit in accordance with *Government Auditing Standards* for performance audits. Our audit scope, methodology, and criteria are detailed in Appendix B.



## **Findings and Recommendations**

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### **Objective 1 and Finding: Did Indiana expend funds in accordance with the requirements of 29 Code of Federal Regulations (CFR) 97?**

Not always. We found that grant funds were not always expended in accordance with 29 CFR 97. Fringe Benefits, Equipment, Travel, and Other expenditures were reported inaccurately on the Financial Status Reports (FSRs) submitted to OSHA during Fiscal Years (FYs) 2000 – 2002. As a result, we are questioning \$55,251 in overstated expenditures for the following reasons:

- double billings (\$7,519), and
- unsupported claims (\$47,732).

We attribute the cause of these questioned costs to IDOL not following procedures in its accounting manual and not adopting procedures to ensure that:

- 1) the transactions are only entered once in IDOL's general ledger and
- 2) expenditures reported on the FSRs are supported by the general ledger.

IDOL management should review FSRs and accounting records to ensure that expenditures are recorded accurately before submitting the FSRs to OSHA.

29 CFR 97, *Uniform Administrative Requirements for Grants and Cooperative Agreements*, Subpart C (b)(1) states:

Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

IDOL's accounting manual lists, as part of its Basic Expenditure Payment Procedures:

Compare vendor claim to previous payment documents processed to determine payment is not pending.

### **Double Billings**

Double billings appeared on the FY 2000 FSRs for the purchase of Computer Equipment and OSHA General Industry books. This resulted in the FSRs being overstated by \$7,519.

IDOL purchased seven computers from NEC Computer Systems for \$11,662 on March 13, 2000. This transaction was recorded twice in IDOL's general ledger on March 13, 2000, and May 31, 2000. IDOL allocated \$5,831 each to the

Consultation Program and the Enforcement Program on both dates. IDOL normally records transactions in its general ledger on the cash basis of accounting. In this instance, IDOL recorded the purchase of the seven computers on the date of purchase, March 13, 2000, as well as the date when the invoice was paid, May 31, 2000.

The FSRs submitted for the second and third quarters of FY 2000 indicate that OSHA was billed \$5,831 in each quarter for the computers. As a result of this double billing, we are questioning \$5,831 for equipment costs billed to OSHA on the FSR submitted for the third quarter of FY 2000.

OSHA was also billed twice for the purchase of 150 OSHA General Industry books from Commerce Clearing House on October 5, 1999 for \$2,928. This transaction was recorded twice in IDOL's general ledger. IDOL allocated \$1,688 of this transaction to the Consultation Program and \$1,240 to another program on both dates.

IDOL paid Commerce Clearing House \$2,928 on November 30, 1999, and December 16, 1999. IDOL discovered the error and collected \$2,928 from Commerce Clearing House on February 1, 2000. However, an adjustment was not made in IDOL's general ledger or on the FSR submitted for the first quarter of FY 2000. As a result of this double billing, we are questioning \$1,688 for Other Costs reported on the FSR submitted to OSHA for the first quarter of FY 2000.

### **Unsupported Claims**

Fringe Benefits, Equipment, and Travel expenditures reported on the FSRs for Fiscal Years (FYs) 2000 – 2001 could not be supported by IDOL's general ledger. This resulted in the FSRs being overstated by \$47,732.

IDOL prepares its FSR from the general ledger, which is on a cash basis of accounting. However, in the fourth quarter, IDOL adds accruals to the FSR to more accurately report expenditures for the fiscal year. These expenditures are normally reversed from inclusion in the FSR submitted during the first quarter of the following fiscal year. Therefore, the expenditures entered on the FSRs may not reconcile with IDOL's general ledger for the first and fourth quarters of each fiscal year.

In addition, we found differences between the FSR and general ledger in other quarters for selected line items. IDOL management did not satisfactorily explain the reason for these differences.

The following charts provide an overview of the unsupported claims for Fringe Benefits, Travel Costs, and Equipment.

Questioned Costs for FY 2000

**Fringe Benefits**

Quarter	FSR	General Ledger	Difference
1 <sup>st</sup> Quarter 10/01/99 – 12/31/99	\$22,524	\$18,824	\$ 3,700
2 <sup>nd</sup> Quarter 01/01/00 – 03/31/00	30,341	31,795	(1,454)
3 <sup>rd</sup> Quarter 04/01/00 – 06/30/00	21,631	21,631	0
4 <sup>th</sup> Quarter 07/01/00 – 09/30/00	47,530	25,686	21,844
Reversal of 4 <sup>th</sup> Quarter Accruals in the 1 <sup>st</sup> Quarter of FY 01			0
<b>Total Questioned Costs</b>			<b>\$24,090</b>

**Travel Costs**

Quarter	FSR	General Ledger	Difference
1 <sup>st</sup> Quarter 10/01/99 – 12/31/99	\$12,805	\$12,805	\$ 0
2 <sup>nd</sup> Quarter 01/01/00 – 03/31/00	13,121	13,121	0
3 <sup>rd</sup> Quarter 04/01/00 – 06/30/00	12,817	12,817	0
4 <sup>th</sup> Quarter 07/01/00 – 09/30/00	19,904	12,458	7,446
Reversal of 4 <sup>th</sup> Quarter Accruals in the 1 <sup>st</sup> Quarter of FY 01			0
<b>Total Questioned Costs</b>			<b>\$7,446</b>

Questioned Costs for FY 2001

**Equipment**

Quarter	FSR	General Ledger	Difference
4 <sup>th</sup> Quarter 7/1/00 – 9/30/00	\$894	\$0	\$894
1 <sup>st</sup> Quarter 10/01/00 -- 12/31/00	(669)	224	(894)
2 <sup>nd</sup> Quarter 01/01/01 – 03/31/01	2,448	1,554	894
3 <sup>rd</sup> Quarter 04/01/01 – 06/30/01	21,499	169	21,330
4 <sup>th</sup> Quarter 07/01/01 – 09/30/01	104,853	47,684	57,169
Reversal of Accruals in the 1 <sup>st</sup> Quarter of FY 02			(63,197)
<b>Total Questioned Costs</b>			<b>\$16,196</b>

## Overall Questioned Costs Summary

In summary, we questioned a total of \$55,251, as follows:

Reason	FY 2000	FY 2001	Total
Double Billings	\$ 7,519	\$ 0	\$ 7,519
Unsupported Claims	31,536	16,196	47,732
<b>Total</b>	<b>\$39,055</b>	<b>\$16,196</b>	<b>\$55,251</b>

## Recommendations 1 and 2

We recommend that the Assistant Secretary for Occupational Safety and Health:

1. recover the \$55,251 in questioned costs, and
2. direct IDOL to ensure that expenditures reported on the FSRs are accurate and adequately supported by IDOL's general ledger.

## Grantee's Response

IDOL concurred. The findings amount to accounting errors and are primarily attributable to the personnel and software issues. IDOL stated that the time period at issue in this audit covers the grant start-up phase, the introduction of new accounting software, and a period of rapid personnel changes at IDOL. During a one-year period at the start-up of this grant, IDOL experienced three agency controllers, two consultation program managers, and three changes in one agency accountant position.

## Auditor's Conclusion

Although IDOL concurred with Finding 1, it did not provide a plan to repay the questioned costs. In addition, IDOL did not document the corrective actions taken or planned to ensure that expenditures reported on future FSRs would be accurate and adequately supported by the general ledger. OSHA will consider IDOL's response as part of its audit resolution process.

## Objective 2 and Finding: Did Indiana expend funds in accordance with the requirements of Office of Management and Budget (OMB) Circular A-87 Cost Principles?

Not always. We found that some grant costs were not allowable. Salary, Fringe Benefits, Training, and Travel costs were improperly charged to the Indiana OSHA Consultation Program during FYs 2000 – 2002. This resulted in expenditures being overstated by \$12,146 for the following reasons:

- Unallowable salary and fringe benefit costs (\$1,079);
- Unallowable training costs (\$2,717);
- Misallocated salaries and fringe benefit costs (\$6,472); and
- Misallocated travel costs (\$1,878)

We attribute the cause of these questioned costs to a lack of IDOL management oversight. IDOL should ensure that when allocating expenditures to the Consultation Program, the cost is reasonable, necessary, and allowable.

Better cost allocation procedures and a review of cost allocation calculations will help ensure that costs are allocated properly to this program.

### **Unallowable Salary and Fringe Benefit Costs**

IDOL charged salary and fringe benefits to the Consultation Program for an employee prior to the employee's official start date on Consultation Program activities. This employee was listed on the labor distribution report for the payroll period ending July 8, 2000, even though the employee did not begin working in the Bureau of Safety Education and Training (BuSET) until July 10, 2000.

OMB Circular A-87, Attachment A, *General Principles For Determining Allowable Costs*, Part E 2.a. states that typical direct costs chargeable to Federal awards may include compensation of employees for the time devoted and identified specifically to the performance of those awards.

This Circular provides that compensation to an employee is allowable only if the employee's time is devoted specifically to performance of the grant. However, IDOL charged salary and fringe benefits to the grant for one employee prior to the employee's start date at BuSET on July 10, 2000. IDOL management could not explain why this charge occurred. The salary and fringe benefits totaled \$2,067 for the pay period ending July 8, 2000. IDOL allocated 52.2 percent of this cost to the Consultation program. As a result, we are questioning \$1,079 (\$2,067 x 52.2%) in salaries and fringe benefits allocated for this employee.

### **Unallowable Training Costs**

IDOL charged training costs that were not necessary to carry out the purpose of the Consultation Program. IDOL paid for courses that employees attended, such as Broadbanding, Research Theory, How to Manage Conflict and Anger, and Homeland Security. IDOL also offered tuition assistance to employees and allocated the costs of these courses to the Consultation Program as well. Examples include: Civil Procedure I and II, Legal Writing I and II, Torts I and II, Research Theory, and Ethical and Legal Considerations.

OMB Circular A-87, Attachment A, *General Principles For Determining Allowable Costs*, Part C 1.a. states that to be allowable under Federal awards, costs must

be necessary and reasonable for proper and efficient performance and administration of Federal awards.

We are questioning \$2,717 as a result of IDOL allocating the cost of training courses that were unrelated to the Consultation Program as shown below:

	<b>Total Training Costs Allocated to Grant</b>	<b>Allocated Costs Questioned</b>
FY 2000	\$ 225	\$ 225
FY 2001	4,487	2,243
FY 2002	249	249
<b>Total</b>	<b>\$4,961</b>	<b>\$2,717</b>

### **Misallocated Salaries and Fringe Benefits Costs**

IDOL's method of allocating salaries and fringe benefits to the Consultation Program is not in compliance with OMB Circular A-87. Instead of using the monthly time distribution reports prepared from actual hours on employees' time sheets, IDOL allocated salaries and fringe benefits by using a monthly cumulative average percent of time from the distribution reports. This is not an approved allocation method, as required by OMB Circular A-87, because the averaging methodology does not take into consideration that the employees are working at varying rates of pay. IDOL needs to claim costs based on the time distribution reports or change to an approved substitute method. This approval can be obtained from the DOL Division of Cost Determination.

OMB Circular A-87, Attachment A, *General Principles For Determining Allowable Costs*, Part E 2.a. (Cited on page 5) requires that compensation for employees is allowable only if their time is devoted specifically to performance of the grant. Further, OMB Circular A-87, Attachment B, *Selected Items Of Cost*, Section 11, *Compensation for personnel services*, states:

h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

(6) Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employment effort.

Since IDOL did not use their time distribution reports, nor an approved substitute method, to allocate salaries and fringe benefits to the Consultation Program, we recalculated the correct costs, based on the time distribution reports. Therefore, we question \$6,472 in salaries and fringe benefits as detailed below:

	<b>Salaries</b>	<b>Fringe Benefits</b>	<b>Total</b>	<b>Percent Claimed</b>	<b>Claimed Costs</b>	<b>Costs Based on Form 2808</b>	<b>Questioned Costs</b>
March 2001	\$39,509	\$13,763	\$53,272	50.71	\$27,014	\$24,650	\$2,364
January 2002	59,376	21,439	80,815	55.50	44,852	40,744	4,108
<b>Total</b>	<b>\$98,885</b>	<b>\$35,202</b>	<b>\$134,087</b>		<b>\$71,866</b>	<b>\$65,394</b>	<b>\$6,472</b>

Our audit scope also included three pay periods in FY 2000. However, claimed costs, based on the average percentage method, were lower than salaries and fringe benefits based on the actual time charged to the grant on the time distribution report. Therefore, we did not question costs for this period. Nevertheless, the method of allocating salaries and fringe benefits needs to be changed to comply with the requirements of OMB Circular A-87.

### **Misallocated Travel Costs**

IDOL allocated travel costs to the Consultation Program by using an allocation percentage that did not coincide with the percentage of time the consultants and administrative staff actually charged to the Consultation Program on their monthly time reports for the days in travel status. We identified a maximum of 10 individuals each fiscal year whose time was misallocated. For example, we identified four cases where IDOL allocated 100 percent of the consultant’s travel costs to the Consultation Program, even though the consultants charged all of their time on their monthly time sheets to the Enforcement Program for the period of travel. Costs attributed to the Enforcement Program are not allowable under the Consultation Program. OMB Circular A-87, Attachment A, Part E 2.d. states that typical direct costs chargeable to Federal awards may include travel expenses incurred specifically to carry out the award.

We are questioning \$1,878 in misallocated travel costs for fiscal years 2001 and 2002 as shown below:

	<b>Total Travel</b>	<b>Claimed Costs</b>	<b>Allocated Costs</b>	<b>Questioned Costs</b>
FY 2001	\$33,529	\$22,783	\$21,575	\$1,208
FY2002	31,694	20,624	19,954	670
<b>Total</b>	<b>\$65,223</b>	<b>\$43,407</b>	<b>\$41,529</b>	<b>\$1,878</b>

Our audit scope also included FY 2000. For FY 2000, we found claimed costs were lower than travel costs based on the actual time charged to the grant on the time distribution report. Therefore, we did not question costs for this period. However, the method of allocating travel costs also needs to be changed to comply with the requirements of OMB Circular A-87.

### **Overall Questioned Costs Summary**

We questioned a total of \$12,146, including applicable Indirect Costs on Salaries and Fringe Benefits, as follows:

<b>Reason</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>Total</b>
Improper Salary and Fringe Benefit Costs	\$1,079	\$ 0	\$ 0	\$1,079
Unallowable Training Costs	225	2,243	249	2,717
Misallocated Salaries and Fringe Benefit Costs	0	2,364	4,108	6,472
Misallocated Travel Costs	0	1,208	670	1,878
<b>Total</b>	<b>\$1,304</b>	<b>\$5,815</b>	<b>\$5,027</b>	<b>\$12,146</b>

### **Recommendations 3, 4, and 5**

We recommend that the Assistant Secretary for Occupational Safety and Health:

3. recover the \$12,146 in questioned costs;
4. direct IDOL to ensure that:
  - a. expenditures allocated to the Consultation Program are identified specifically to the performance of the program,
  - b. expenditures allocated to the Consultation Program are necessary and reasonable to carry out the program,
  - c. expenditures are allocated in accordance with a method identified in OMB Circular A-87, and
  - d. salary, fringe benefits, and travel costs are allocated based on time distribution reports; and
5. review the remaining salary, fringe benefits and travel costs not tested to ensure these costs have been allocated based on time distribution reports.

### **Grantee's Response**

IDOL disagreed with all of Finding 2. With regard to the questioned costs of \$1,079 for improper salary and fringe benefit costs, IDOL responded that the decision to promote this internal hire had been made prior to the paperwork



transfer of the employee. However, the employee began working on the grant in order to transition into her new role. IDOL believes that work performed during this time was grant related.

Regarding the questioned costs of \$2,717 for training costs, IDOL responded that in order to improve employee retention and recruitment, it implemented a tuition-reimbursement fringe benefit and these questioned costs fall under that benefit program. IDOL concedes that these costs would have been more accurately recorded under the fringe benefit line item instead of training.

Regarding the questioned costs of \$6,472 for misallocated salaries and fringe benefit costs, IDOL believes this finding contradicts OSHA's December 2000 onsite review of the 21(d) program (Attachment A to the response) with regard to the IDOL's compliance with OMB Circular A-87. OSHA's review concluded "Personnel who work less than 100% on the grant are required to maintain an employee time and attendance report to keep track of the actual hours worked. Our reviews of these reports for several pay periods disclosed that only the actual hours worked were charged to the grant program." IDOL does not believe that it should suffer any consequence for having complied with procedures previously approved by DOL absent any prior notification that DOL had changed its perspective with regard to those procedures.

### **Auditor's Conclusion**

With regard to the \$1,079 questioned for unallowable salary and fringe benefits, even though IDOL claims that the employee worked on grant related activities, work on these activities occurred before the employee's official start date in Consultation Program per the authorized paperwork. This is not allowable per OMB Circular A-87.

Regarding \$2,717 questioned for unallowable training costs, IDOL has not demonstrated the benefits to the Consultation Program when employees attend training courses unrelated to the purpose of the program. OMB Circular A-87 requires that such costs be necessary and reasonable for the performance of the Program.

Our audit fieldwork showed that IDOL employees maintain monthly time and attendance reports to keep track of the actual hours worked in the 21(d) program. However, at the end of the month, IDOL allocated salaries and fringe benefits by using a monthly cumulative average percentage of time from the distribution reports. This distorts the total salaries charged to the program because not all employees receive the same hourly rate of pay. This is not an approved allocation method, as required by OMB Circular A-87.

IDOL did not specifically address the \$1,878 for misallocated travel costs. However, IDOL used the same allocation method as for salaries and fringe benefits, which is not an approved method in accordance with OMB Circular A-87.

IDOL's response did not address changes to its allocation methodology. OSHA will consider IDOL's response as part of its audit resolution process.

### **Objective 3 and Finding: Did Indiana expend funds in accordance with specific grant provisions?**

Not always. IDOL did not comply with some provisions in the consultation grant agreements when expending funds. Grant funds were used to pay for the expenditures of unauthorized employees and automobile purchases. As a result, we are questioning \$68,844 for the following reasons:

- employees not listed in the grant (\$41,090), and
- equipment not authorized in the grant (\$27,754).

IDOL management should ensure that grant funds are expended only for personnel and equipment items authorized in the grant agreements. Otherwise, OSHA's approval should be obtained and documented prior to expending funds for items not listed in the original agreements.

Each fiscal year, IDOL creates and submits a consultation grant agreement to OSHA for approval. Once approved, IDOL must abide by the provisions in the agreement. Listed in the grant agreement under the "Supportive Cost Breakout Listing" are the number of positions, and the names of employees authorized to charge expenditures to the grant. Included also in the grant agreement is an "Approved Consultation Equipment Procurement Listing." The approved equipment procurement listing includes the consultant technical equipment having a useful life of more than one year and a unit acquisition cost of \$5,000 or more.

Further, OMB Circular A-87, Attachment A, Section C, *Basic Guidelines*, states:

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
  - d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

## Employees Not Listed in the Grant

During FYs 2000 through 2002, IDOL charged expenses related to six unauthorized employees, totaling \$41,090. These expenses were charged to the following categories: Salary, Fringe Benefits, Training, Travel, Contractual, and Other Costs. Listed below is the questioned cost breakout for each fiscal year.

### Questioned Costs for FY 2000

Expenditures totaling \$34,303 are questioned for three employees not listed on the Supportive Cost Breakout Listing in the FY 2000 grant agreement. The Supportive Cost Breakout Listing identifies employees and positions that were authorized by OSHA to charge time to the 21(d) grant. IDOL was authorized 12 positions, including 11 named staff and 1 vacant position (which was filled during the year). IDOL charged expenditures for three additional employees not detailed in the Listing.

The Listing only authorizes salary and fringe benefits. However, the grant agreement provides funds for travel, training, contractual costs, and other costs associated with the authorized employees. We are questioning salaries, fringe benefits, as well as other related costs:

ID No.	Salary	Fringe Benefits	Training	Travel	Contractual	Other Costs	Total
13	\$ 5,985	\$2,334	\$695	\$ 3,806	\$ 0	\$196	\$12,982
16	5,356	2,217	0	3,568	185	162	11,522
6	4,414	1,920	0	3,369	0	96	9,799
<b>Total</b>	<b>\$15,755</b>	<b>\$6,471</b>	<b>\$695</b>	<b>\$10,743</b>	<b>\$185</b>	<b>\$454</b>	<b>\$34,303</b>

### Questioned Costs for FY 2001

Expenditures totaling \$1,143 are questioned for costs incurred by two employees that were not included on the Listing in the FY 2001 grant agreement. These employees did not work on any grant related activities during FY 2001. IDOL did not charge these employees' salaries and fringe benefits to the grant. However, IDOL charged related costs, which we are questioning, as follows:

ID No.	Training	Travel	Total
8	\$42	\$ 0	\$42
18	0	1,101	1,101
<b>Total</b>	<b>\$42</b>	<b>\$1,101</b>	<b>\$1,143</b>

### Questioned Costs for FY 2002

Expenditures totaling \$5,644 are questioned for one employee that was not included on the Listing in the FY 2002 grant agreement. IDOL allocated salaries and fringe benefits for an IDOL employee on occasions when he performed computer maintenance and software upgrades for BuSET, as part of the

consultation grant. This was not authorized in the grant agreement. We are, therefore, questioning these related costs:

ID No.	Salary	Fringe Benefits	Total
17	\$3,966	\$1,678	\$5,644
<b>Total</b>	<b>\$3,966</b>	<b>\$1,678</b>	<b>\$5,644</b>

### Equipment Not Authorized in the Grant

The grant agreement includes a procurement listing for each fiscal year, which is a list of equipment to be purchased with grant funds during the term of the grant agreement. As defined by the grant agreement:

Equipment shall include the costs of consultant technical equipment having a useful life of more than one year and a unit acquisition cost of \$5,000 or more, except as defined in Special Provisions VI.B. All equipment so defined shall be listed in the Approved Consultation Equipment Procurement Listing.

During FY 2002, IDOL purchased two automobiles. As part of the transaction, compact disc (CD) players were installed prior to the sale. The purchase of the automobiles and CD players totaled \$27,754. Because the automobiles purchased had a useful life of more than one year and a unit acquisition cost of more than \$5,000, the purchases required advance approval. We are questioning this cost because there was no advance approval.

Equipment	Unit Price	Quantity Purchased	Total Cost
Automobile - Dodge Stratus (2002)	\$13,632	2	\$27,264
Installation of CD Player	245	2	490
<b>Total</b>			<b>\$27,754</b>

### Overall Questioned Costs Summary

We questioned a total cost of \$68,844 due to violations of specific grant provisions as follows:

Reason	FY 2000	FY 2001	FY 2002	Total
Employees Not Listed in the Grant	\$34,303	\$1,143	\$5,644	\$41,090
Equipment Not Authorized in the Grant	0	0	27,754	27,754
<b>Total</b>	<b>\$34,303</b>	<b>\$1,143</b>	<b>\$33,398</b>	<b>\$68,844</b>

## **Recommendations 6 and 7**

We recommend that the Assistant Secretary for Occupational Safety and Health:

6. recover questioned costs of \$68,844, and
7. direct IDOL to:
  - a. apply expenditures to the grant only for those activities listed in the grant agreement, and
  - b. receive and document OSHA's approval of expenditures prior to expending funds on items not listed in the grant agreement.

## **Grantee's Response**

Again, IDOL stated that the largest portion of these questioned expenditures (\$34,303 in FY 2000) were previously reviewed and approved by OSHA during its December 2000 onsite review. IDOL further believes that even though these expenditures were not itemized in the grant agreement, they were appropriate and performed on grant activities. Since IDOL did not overspend the grant and these activities were otherwise eligible for grant coverage, it believes the costs are allowable.

With regard to \$1,143 questioned for training and travel for employees not listed in the FY 2001 grant agreement, IDOL concedes that the questioned training cost of \$42.50 was a simple bookkeeping error. In regard to the questioned travel costs of \$1,101, IDOL stated that an intern conducted this travel and performed activities covered by the grant. Because these activities were covered by the grant, IDOL believes the costs are allowable.

IDOL stated that the questioned employee costs of \$5,644 for FY 2002 were incurred for information technology services specifically related to this grant. The grant agreement permitted contract expenditures of \$10,500 for such purposes during this fiscal year. Since, the in-house employee expenditures were in lieu of contract services, IDOL believes these costs are allowable.

With regard to the questioned equipment costs of \$27,754 in FY 2002, IDOL concedes that such equipment was not specifically listed in the grant agreement. These expenditures were made in an effort to reduce travel costs associated with the consultation program by replacing mileage reimbursement for use of personal vehicles by staff. The purchase of these vehicles was grant related.

## **Auditor's Conclusion**

IDOL management should ensure that grant funds are expended only for personnel authorized in the grant agreements. Otherwise, OSHA's approval should be obtained and documented prior to expending funds for personnel not listed in the original agreements.

Further, the related training and travel for such employees not listed in the grant is also unallowable.

IDOL management should ensure that grant funds are expended only for equipment items authorized in the grant agreement. Otherwise, OSHA's approval should be obtained and documented prior to expending funds for equipment items not listed in the original agreement.

IDOL's response did not address changes to its procedures for applying expenditures to the grant to ensure that only those activities listed in the grant agreement are claimed as reimbursable costs. OSHA will consider IDOL's response as part of its audit resolution process.



for Elliot P. Lewis  
November 5, 2003

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## **Appendices**

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## **Background**

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### **Consultation Program**

OSHA provides grants to states to provide free consultative services to employers. This is funded under Section 21(d) of the Occupational Safety and Health Act, which was added under the Occupational Safety and Health Administration Compliance Assistance Authorization Act of 1998. Primarily targeted for smaller businesses, this safety and health consultation program is completely separate from OSHA inspections. During the consultation, employers learn about potential hazards at their worksite. No citations are issued or penalties proposed. The consultation is confidential; employer names and any information provided about the workplace, plus any unsafe or unhealthful working conditions that the consultant uncovers, will not be reported routinely to the OSHA inspection staff. Afterward, employers can qualify for a 1-year exemption from routine OSHA inspections.

Because consultation is a voluntary activity, employers must request it. Once contacted, the consultant discusses the employer's specific needs and sets up a visit date based on the priority assigned to the request, the employer's work schedule, and the time needed for the consultant to adequately serve the employer. OSHA encourages the employers to undergo a complete review of their company's safety and health situation. However, if the employer wishes, they may limit the visit to one or more specific problems.

Upon arrival, the consultant studies the employer's entire workplace, or the specific conditions the employer designates, and also discusses the applicable OSHA standards. Consultants also point out other safety or health hazards that might not be cited under OSHA standards, but nevertheless may pose safety or health risks to employees. The consultant may suggest and even provide other measures such as self-inspection and safety and health training the employer and employees can use to prevent future hazardous situations.

The consultant reviews any detailed findings with the employer in a closing conference. The employer learns not only what needs to be improved, but what it is doing right. At that time, the employer and consultant can discuss problems, possible solutions, and abatement periods to eliminate or control any serious hazards identified through the walk-through. If the consultant finds an imminent danger situation during the walk-through, the employer must take immediate action to protect all employees. In other situations that would be judged a "serious violation" under OSHA criteria, the employer and consultant are required to develop and agree to a reasonable plan and schedule to eliminate or control

that hazard. The consultants offer general approaches and options to the employer. They may also suggest other sources for technical help.

## **Indiana's Consultation Program**

In Indiana, the consultation program grants were awarded to the IDOL's BuSET. OSHA awarded BuSET \$523,000 in FY 2000, \$731,000 in FY 2001, and \$731,000 in FY 2002, for a total of \$1,985,000. The state provided IDOL an additional \$220,555.

Indiana is one of 48 states, the District of Columbia, and several U.S. territories that operate OSHA onsite consultation programs. Indiana was accepted into the Federal OSHA Consultation Program in July 1999. Acceptance into the consultation program is noncompetitive.

Indiana operates its own safety and health program for development and enforcement of standards for which federal standards have been promulgated, in accordance with Section 18 of the Occupational Safety and Health (OSH) Act. Indiana is known as a "State Plan State." As such, Indiana is eligible to operate a consultation program, provided it meets the requirements of Section 21 (d) of the OSH Act.

## Objective, Scope, Methodology, and Criteria

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### Audit Objective

The purpose of our audit was to determine whether funds were properly expended. To determine this, we wanted to determine the answers to the following questions:

1. Did Indiana expend funds in accordance with the requirements of 29 CFR 97?
2. Did Indiana expend funds in accordance with the requirements of OMB Circular A-87 Cost Principles?
3. Did Indiana expend funds in accordance with specific grant provisions?

### Scope

We audited the OSHA 21(d) consultation grants awarded to the IDOL's BuSET. Our audit scope covered the period October 1, 1999 through September 30, 2002. IDOL received over \$1.9 million dollars from OSHA to operate its consultation program for the above period. We tested expenditures claimed totaling \$613,846.

### Methodology

To meet our objective, we reviewed management controls over relevant transaction cycles. Our work on established management controls included obtaining and reviewing policies and procedures manuals, interviewing key personnel, and reviewing selected transactions to observe the controls in place. Our testing related to management controls focused only on the controls related to our audit objectives of reviewing the reported cost and performance data and was not intended to form an opinion on the adequacy of management controls overall, and we do not render such an opinion. Weaknesses noted in our testing are discussed in the **Findings and Recommendations** section of this report.

In order to determine compliance with the above-mentioned laws and regulations, we performed detailed tests of transactions and tested a sample of travel vouchers submitted for reimbursement of expenses while conducting consultation visits during our audit period. Our detailed tests of transactions included both analytical review and substantive tests of accounts. Our testing related to compliance with laws and regulations focused only on the laws and regulations relevant to our audit objectives of reviewing the reported cost and

performance data and was not intended to form an opinion on the compliance with laws and regulations as a whole, and we do not render such an opinion. Instances of non-compliance are discussed in the **Findings and Recommendations** section of this report.

We selected a judgmental sample of transactions from line items on the FSR, excluding travel. For our audit period, we reviewed 428 transactions, with a total dollar value of \$541,054. We did not intend our testing to be a representative sample and did not project to the entire universe of financial transactions. In addition, our selective testing was not designed to express an opinion on IDOL's FSR.

We separately selected a statistical sample of 217 travel vouchers, from a universe of 447 vouchers, with a total dollar value of \$72,792, to determine if trips taken were appropriate and the mileage reimbursement claims were reasonable. Our confidence level was 95 percent with a  $\pm 5$  percent sampling precision.

Our audit was performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our fieldwork was conducted at IDOL offices in Indianapolis, Indiana between December 2002 and June 2003.

## **Criteria**

The following criteria were used in accomplishing our audit:

Occupational Safety and Health Act 1970

29 CFR Part 97 - Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, September 26, 1997

29 CFR Part 1908 - Consultation Agreements: Changes to Consultation Procedures, October 26, 2000

OMB Circular A-87 - Cost Principles for State, Local, and Indian Tribal Governments, August 29, 1997

OSHA's Training and Education Directives (TED) 3.6 – Consultation Policies and Procedures Manual, August 6, 2001

State of Indiana's Accounting Manual

State of Indiana's Financial Management Circular 97-1.1 effective July 1, 1997

## **Acronyms and Abbreviations**

BuSET	Bureau of Safety Education and Training
CD	Compact Disc
CFR	Code of Federal Regulations
DOL	U.S. Department of Labor
FSR	Financial Status Report
FY	Fiscal Year
IDOL	Indiana Department of Labor
OIG	Office of Inspector General
OMB	Office of Management and Budget
OSH Act	Occupational Safety and Health Act of 1970
OSHA	Occupational Safety and Health Administration
TED	Training and Education Directives

## **Grantee's Response to Draft Report**

In addition to the letter shown on the following pages, IDOL also provided a copy of an Onsite Monitoring Review dated February 14, 2001, as Attachment A to its response. This review was conducted December 18-22, 2000 by a Federal OSHA representative to assess the financial and administrative aspects of the 21(d) Onsite Consultation and 23 (g) State Plan Grants awarded to IDOL.



**Department of Labor**

**JOSEPH E. KERNAN, GOVERNOR**  
*Nancy J. Guyott, Commissioner*

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**Via Facsimile & U.S. Mail**

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

December 3, 2004

Re: OSHA Consultation Grants Audit  
Discussion Draft No. 05-04-009-10-105

Dear Mr. Allberry:

Please consider Indiana's response to the discussion draft you forwarded to our attention concerning the above referenced audit. We are pleased that your audit reveals that all expenditures, even those questioned for other reasons, were grant related.

Indiana would first note that the time period at issue in this audit covers the grant start-up phase, the introduction of new accounting software, and also a period of rapid personnel changes at the Indiana Department of Labor. Indeed, during a one year period at the start-up of this grant, the IDOL experienced 3 agency controllers, two consultation program managers, and three changes in one agency accountant position. In addition, an entirely new accounting software package was introduced during the same year (at the start of a state fiscal year and the fourth quarter of a federal fiscal year). These factors no doubt complicated its administration of this grant, particularly in the early phases.

The Indiana Department of Labor would also note that its administration of these grant programs was specifically reviewed by the U.S. Department of Labor at the middle of the period covered by this audit. (See attachment A). Importantly, at that time, the U.S. Department of Labor informed the Indiana Department of Labor's management that the U.S. Department of Labor believed that this grant was "administered properly." This advisement was rendered after a review of the same accounting records provided to the auditors who generated this draft report. Thus, the IDOL continued its practices, as approved by the U.S. Department of Labor, through the remaining half of the period at issue herein. Importantly, these two audits directly conflict on several points for the period covered in the earlier audit.

With regard to the specific findings the IDOL would submit for your consideration the following.

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Finding Number 1

These findings amount to accounting errors and are primarily attributable to the personnel and software issues discussed above. We do, however, concur in the specific errors discussed in the draft report.

Finding Number 2

The draft report specifically contradicts the U.S. Department of Labor's earlier examination of this program with regard to the IDOL's compliance with OMB Circular A-87 and A-107. That earlier review specifically stated that "Personnel who work less than 100% on the grant are required to maintain an employee time and attendance report to keep track of the actual hours worked. Our review of these reports for several pay periods disclosed that only the actual hours worked were charged to the grant program." The IDOL did not alter its accounting procedures with respect to allocation of personnel costs after receipt of that report. The IDOL does not believe that it should suffer any consequence for having complied with procedures previously approved by the U.S. Department of Labor absent any prior notification that the U.S. Department of Labor had changed its prospective with regard to those procedures.

With regard to some specific questioned items, the IDOL would additionally submit that:

Questioned salary of \$1,079: The decision to promote this internal hire had been made prior to the paperwork transfer of the occupant. However, that occupant was dispatched to begin work on the grant in order to transition into her new role. The IDOL believes that work performed during this time was grant related.

Questioned training costs of \$2,717: The IDOL believes that these costs are and should be allowable under the grant, though it concedes that such costs would have more accurately been recorded under the fringe benefit line-item. In order to improve employee retention and recruitment, the IDOL implemented a tuition-reimbursement fringe benefit and these questioned costs arise under that benefit program.

Finding Number 3

Again, the IDOL would note that the largest portion of these questioned expenditures were previously reviewed and approved by the U.S. Department of Labor in its previous audit of this program. Those salary, fringe benefit, training, travel, contractual and other costs questioned for the Federal Fiscal Year 2000 – some \$34,303 – fall within the U.S. Department of Labor's previous conclusion that only personnel costs were attributed in accordance with the grant. Moreover, the IDOL would note that the questioned expenditures, even if they were not itemized in the grant agreement, were appropriate and were performed on the grant program. In that the IDOL did not overspend the grant and that these expenditures were made for activities otherwise eligible for grant coverage, the

IDOL believes that reimbursement of the U.S. Department of Labor for these amounts is inappropriate.

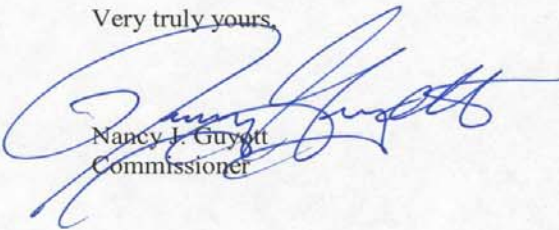
With regard to the questioned employee travel and training costs for employees not listed in the grant agreement during Federal Fiscal Year 2001, the IDOL would concede that the question training costs of \$42.50 was inappropriate. We believe that transaction was a simple book-keeping entry error. With regard to the questioned travel costs for this fiscal year, the IDOL would note that this travel was performed by an intern with the IDOL for a short time and was performed on activities otherwise covered by the grant. Again, the IDOL did not overspend the grant. The IDOL believes that reimbursement of the U.S. Department of Labor for these expenditures is inappropriate.

With regard to the questioned employee costs for Federal Fiscal Year 2002, the IDOL would note that these costs were incurred for work performed related to the grant. Moreover, these costs were associated with information technology services specifically related to this grant. The grant agreement permitted contract expenditures of \$10,500 for such purposes during this fiscal year. That amount is nearly double the questioned \$5,644. The in-house employee expenditures were in-lieu of contract services. Thus, the U.S. Department of Labor seeking reimbursement for this expenditure merely penalizes the Indiana program for responsible fiscal management of taxpayer resources.

With regard to the questioned equipment costs in Federal Fiscal Year 2002, the IDOL concedes that such equipment was not specifically listed in the grant agreement. These expenditures were made in an effort to reduce costs of travel associated with the consultation program by replacing mileage reimbursement for use of personal vehicles by staff. The purchase of these vehicles was grant-related.

Thank you for considering this response. Should you have questions concerning our response, please contact David Finnegan at (317) 232-2589 for assistance.

Very truly yours,



Nancy J. Guyott  
Commissioner