STATEMENT OF PATRICIA A. DALTON
DEPUTY INSPECTOR GENERAL
U.S. DEPARTMENT OF LABOR
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COMMITTEE ON EDUCATION AND THE WORKFORCE
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Good Morning Mr. Chairman and Members of the Subcommittee. It is a pleasure for me to be here in my capacity as Deputy Inspector General to discuss financial and performance integrity issues involving Department of Labor (DOL) grants. Mr. Chairman, I know that you and other Members of this Subcommittee, through the American Worker Project, have shown a keen interest in how the Department administers and tracks its discretionary spending on various job training and employment programs. This interest has led, in part, to today''s hearing and I appreciate your concern. From the outset, I would like to emphasize that the views expressed today are those of the Office of Inspector General (OIG), consistent with its independent role to provide oversight of the Department.

At DOL, audit oversight is provided through entity-wide audits required by the Single Audit Act (SAA) and grant audits performed by the OIG. There are two important issues which impact our grant oversight capabilities:

(1) the SAA provides limited audit coverage of DOL programs; and

(2) the scope of SAA audits does not include performance data.

The SAA of 1984 and the SAA Amendments of 1996

Prior to the passage of the SAA, non-Federal entities that expended Federal awards were traditionally audited by each grantor agency on a grant-by-grant approach. This approach often duplicated the same audit procedures because audit agencies seldom coordinated their efforts. For example, it was not uncommon for different audit organizations to audit a grantee within the same time period, reviewing the same internal control policies and accounting records. In addition, gaps in audit coverage often occurred since audit work was scheduled irregularly, resulting in many grantees not being audited for long periods of time.

By the early 1980s, Congress became increasingly concerned about this basic lack of accountability in Federal financial assistance, particularly when that assistance had increased from $7 billion in 1960 to $95 billion by 1981. The result was the SAA, which promoted more timely and uniform, entity-wide audit coverage than was achieved under the previous grant-by-grant audit approach. Designed to increase grant accountability, SAA audits are the primary method used by GAO to provide audit assurance in support of government-wide consolidated financial statements. DOL funds covered by SAA audits in FY 1998 equaled $27 billion, or 87 percent of the $31 billion in total DOL expenditures.

According to State and local government officials interviewed by GAO, the SAA process has contributed to improvements in financial management practices. State and local government entities have installed new accounting systems, become subject to annual comprehensive financial statement audits, adopted or accelerated the adoption of generally accepted accounting principles, improved systems for tracking Federal funds, strengthened administrative controls, and have increased oversight of subrecipients. But while the SAA has been a significant improvement to prior auditing practices and procedures, it is not without its weaknesses.

In the early 1990s, studies conducted by the President''s Council on Integrity and Efficiency and others made specific recommendations on how the SAA could be strengthened. These recommendations served as the foundation for the SAA Amendments of 1996, which:

(1) extended coverage of SAA audits to non-profit organizations that administer Federal programs;

(2) exempted thousands of entities from Federally-mandated audits by raising the dollar threshold for requiring audits from $25,000 to $300,000; and

(3) authorized a risk-based approach to selecting programs for testing.

While these amendments have improved the SAA, we still have concerns regarding the oversight capabilities it provides of DOL grants.

Limited Audit Coverage of DOL Programs Under the SAA

The extent of SAA audit coverage concerning DOL programs has been of concern to my office for some time. For example, in a 1991 audit report on the effectiveness of the SAA, we found that $768 million of FY 1987 JTPA expenditures were either not audited or received very limited audit coverage. Another $226 million of the expenditures for several smaller DOL programs were either not audited or received very limited audit coverage as well. Our 1991 audit report on the effectiveness of the SAA also found extensive problems with the quality of audit work performed under the SAA.

Unfortunately, we have found that similar problems continue to exist today. We have recently completed Quality Control Reviews (QCRs) of five States, which are reviews of the workpapers of the CPA firms or State and local auditors that conducted SAA audits. We found that either inadequate audit testing of DOL program clusters occurred, or that DOL programs were simply excluded from being audited. For example, in Colorado we found that the SAA auditors failed to adequately perform compliance testing of Colorado''s JTPA cluster programs even though it is a Major (Type A) program totaling over $9 million. In Kansas, $138 million in State Unemployment Insurance tax funds were excluded in two audit schedules since it was considered "low risk." In Delaware, not all JTPA or Employment Service programs were included in their respective clusters, thereby excluding nearly $2.2 million from being audited. Since we have completed QCRs for only a handful of States, we cannot make broad conclusions about the extent of audit coverage of DOL programs under other State SAA audits. However, the work we have done is an indicator that improvements in the quality of audit work may still be needed.

Based on our experience, accountability will only be ensured through effective Federal government monitoring, supported by an effective audit program. More programs and transactions need to be tested to provide Congress and the Administration with reliable financial and performance information regarding grants. To facilitate Federal monitoring efforts, additional information should be reported by the SAA auditor. Such information should include the number of transactions tested and questioned. In addition, the amount of questioned costs should be projected to the universe of transactions sampled.

The Scope of SAA Audits Does Not Include Performance Data

My second area of concern is the lack of performance data in the scope of SAA audits. A large amount of DOL grant funds are directed to employment and training activities, and the Department''s ability to provide effective training and employment services is the key to the success of welfare reform. Of equal importance is the fact that with the passage of the Government Performance and Results Act (GPRA), Congress and the Administration are mandating that programs be effective, have a positive impact, and produce a positive return on the taxpayers'' investment. In order to determine whether the Department''s employment and training programs are effective, the Department needs to have accurate, reliable program statistics so that program performance can be evaluated. More can and should be done through the SAA audit process to attest to this essential information on grantee performance.

A good illustration of the types of problems that may be identified by analyzing data and conducting performance auditing is our audit of the Puerto Rico Seasonal and Migrant Farmworker Program. This audit disclosed that a Federal investment of $5 million in classroom training resulted in the placement of only 17 individuals in training-related employment that lasted over 90 days, with an average starting wage of $3.90 per hour. Moreover, we found that an investment of $1.4 million in On-the-Job Training (OJT) funds was of virtually no value to participants because they were trained in ordinary agricultural tasks that many had performed before, thereby doing little to enhance their employment opportunities. This is contrary to the purpose of OJT, which is to improve work skills by providing occupational training in an actual work environment. If there was an audit of program data and it was reported within the SAA, such problems could be discovered sooner rather than later, saving taxpayers millions of dollars.

Another example is Florida''s Performance Based Incentive Funding (PBIF) program, which was established to provide supplemental funding to community colleges and school districts with adult educational programs. Schools that participated in the PBIF program received fixed-fee payments when JTPA-eligible students enrolled in prescribed courses or completed training. Our review found that these fees, totaling over $11.4 million, were not justified since JTPA students were not provided any services or assistance by these schools that were not otherwise provided to the general student population, making this an unallowable JTPA expenditure. We therefore recommended that ETA recover these misspent funds and that they monitor more closely Florida''s grant activities to ensure that their programs performed as intended. Once again, the inclusion of performance auditing in the SAA may have saved taxpayers millions of dollars.

The OIG Has Taken a Proactive Approach to Uncover Potential Problems and Assist Grantees

In response to the concerns I have expressed regarding the SAA, my office has undertaken a number of efforts to provide more accountability over DOL grant funds. These proactive efforts include conducting audits and investigations that identify vulnerabilities and recommend corrective actions before funds are misspent, and providing technical assistance to grantees whenever possible.

For example, the OIG conducted 59 audits of Welfare-to-Work (WtW) programs during the past year in order to assess their status, identify vulnerabilities, and recommend corrective action before funds are misspent. It is not surprising that our audit identified several vulnerabilities in financial and program management, particularly since this work was done during the early stages of program implementation. Some of these vulnerabilities included inadequate internal controls over cost limitations, inadequate management information systems, inadequate internal controls over financial reporting, lack of formal agreements with TANF agencies, lack of formal eligibility procedures, lack of written policies and procedures, and non-compliance with Work First and FLSA requirements. We have recommended to ETA that it reinforce its efforts to monitor grantee plans and program implementation schedules to ensure the most efficient and effective use of WtW funds.

The OIG has also been working with the Department to provide our expertise to ETA as it works to implement the Workforce Investment Act (WIA), which will replace JTPA. With ETA, we undertook a special survey of selected JTPA recipients to evaluate the potential impact of WIA''s administrative cost provisions by reclassifying and restating JTPA Program Year 1997 costs using WIA regulatory definitions. The survey found that only 2 out of 10 service delivery areas would be in compliance with the WIA administrative cost limitation, that most surveyed would seek a waiver of the cost limitation, and that most intended to change their method of operations in order to comply with the statutory cost limitation. We told ETA that these results raise concerns that local delivery areas operating under waivers could become the rule rather than the exception and that in order to comply with the WIA administrative cost limitation, creative ways to charge administrative costs will probably occur.

In Rhode Island, both the OIG and the Employment and Training Administration (ETA) worked with the State to address the insolvency of the Northern Rhode Island Private Industry Council (NRIPIC). NRIPIC, which served as the administrative entity for the Northern Rhode Island service delivery area as well as the private industry council, ceased operations during April 1999 because it exhausted all of its JTPA Program Year 1998 funds and a $200,000 credit line. It had an estimated operating deficit between $500,000 and $700,000.

The OIG also recently audited the National Council of Senior Citizens (NCSC). The NCSC, a private nonprofit national-level organization, receives grants from DOL of over $60 million a year to provide subsidized part-time employment and training to about 9,000 older workers. Our audit of the NCSC for FYs 1993-1995 questioned over $5.7 million in direct and indirect costs and identified over $1 million where funds could have been put to better use.

Conclusion

In conclusion, improved grant accountability will only be ensured through effective Federal government monitoring, supported by an effective audit program. Therefore, the OIG will continue to monitor the SAA and will conduct grant and contract audits to supplement the SAA. In addition, we recommend:

(1) the SAA require more testing to ensure greater audit coverage; and

(2) the SAA incorporate a performance audit component.

Mr. Chairman, this concludes my prepared statement. I thank you once again for the opportunity to express the views of the OIG. I will be glad to answer any questions that you or other Members of the Subcommittee may have.