

U.S. Department of Labor

Office of Inspector General—Office of Audit

OFFICE OF THE CHIEF FINANCIAL OFFICER



FINDINGS AND RECOMMENDATIONS IDENTIFIED IN AN AUDIT OF THE REPORT ON PERFORMANCE AND ACCOUNTABILITY FOR THE YEAR ENDING SEPTEMBER 30, 2005

This report was prepared by R. Navarro & Associates, Inc., under contract to the U.S. Department of Labor, Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

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Assistant Inspector General
U.S. Department of Labor

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Table of Contents

| | PAGE |
|---|------|
| EXECUTIVE SUMMARY | 3 |
| INDEPENDENT AUDITORS' REPORT ON FINDINGS AND RECOMMENDATIONS IDENTIFIED IN AN AUDIT OF THE REPORT ON PERFORMANCE AND ACCOUNTABILITY | 9 |
| REPORTABLE CONDITIONS | 11 |
| Finding 1 - Incomplete Capitalization of Internal-Use Software | 13 |
| Finding 2 - Software License Fee Inappropriately Capitalized | 15 |
| Finding 3 - Internal Control Weaknesses Noted for Job Corps Real Property... | 17 |
| Finding 4 - Grant Accounting Errors..... | 21 |
| Finding 5 - Deficiencies in Controls Established to Prevent Unemployment Insurance Benefit Overpayments | 23 |
| Finding 6 - Errors in FECA Medical Bill Processing..... | 25 |
| Auditors' Conclusion | 27 |
| Finding 7 - Lack of System to Track Certain FECA Medical Bill Receivables | 28 |
| Finding 8 - Lack of Current Medical Evidence to Support FECA Medical Benefit Payments | 29 |
| Finding 9 - OASAM's Procurement Files Lack Sufficient Documentation..... | 30 |
| Finding 10 - Managerial Cost Accounting System Not Fully Implemented | 33 |
| Finding 11 - Errors Reported by States on ETA 2112 Not Corrected by ETA..... | 34 |
| Finding 12 – Weaknesses Noted Over ESA Benefit Program Accounting | 38 |
| MANAGEMENT ADVISORY COMMENTS..... | 43 |
| 1. Unemployment Compensation Advisory Council Not Established | 45 |
| 2. Social Security Wage Authorizations Not Consistently Received From FECA Claimants | 46 |
| 3. Monthly Medical Bill Sampling Not Sufficiently Performed by FECA District Offices | 47 |
| 4. Inadequate Validation of Unemployment Insurance Data Submitted by States | 48 |
| 5. Lack of Written Policies and Procedures for the Longshore and Harbor Workers' Compensation Act Special Fund | 50 |
| 6. Inadequate Accountable Property Systems | 51 |
| 7. Weaknesses in the DLHWC Rehabilitation Payment Process | 52 |
| 8. Internal Control Weaknesses Noted for Job Corps Real Property | 54 |
| 9. Inadequate Capitalized Asset Property Management | 55 |
| APPENDICES..... | 59 |
| APPENDIX A Acronyms and Abbreviations | 61 |

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Executive Summary

R. Navarro & Associates, Inc., under contract to the United States Department of Labor (DOL), Office of Inspector General (OIG), audited the DOL's financial statements as of and for the years ended September 30, 2004 and 2005. The audits were conducted in accordance with auditing standards generally accepted in the United States of America: *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. The objectives of the audits were to express an opinion on the fair presentation of DOL's principal financial statements. Additionally, the objectives include expressing an opinion on DOL's compliance with requirements of the *Federal Financial Management Improvement Act (FFMIA) of 1996* (Public Law 104-278), based on an examination.

In planning and performing the audits, certain procedures were performed with respect to DOL's internal control over financial reporting. The objective of these procedures was not to provide assurance on DOL's internal controls; accordingly, an opinion on such controls was not provided. However, certain matters were noted involving the internal control and its operations that were considered to be reportable conditions, and other matters considered to be management advisory comments. This report was prepared to provide information to management that could help in the development of responses and corrective actions for the reportable conditions and management advisory comments identified in the audit.

A separate report will be issued to the Chief Information Officer (CIO) containing recommendations pertaining to the audit of the Department's general controls and security over Information Technology (IT) systems that support the financial statements.

Summary of Reportable Conditions and Recommendations

1. Incomplete Capitalization of Internal-Use Software

We identified more than \$109 million of internal-use software costs that were not appropriately capitalized in accordance with generally accepted accounting principles (GAAP) and DOL policy. Specifically, DOL agencies did not capitalize software development costs, such as the direct salary and fringe benefit costs associated with Federal employees involved with software development, and the related indirect costs such as overhead, rent, and travel. **We recommend that the Chief Financial Officer (CFO) monitor agency compliance with Federal and departmental accounting requirements for internal use software.** Management concurred and recorded appropriate adjustments to the year-end financial statements. Management also agreed to monitor agency compliance and reissue guidance for capitalizing costs of internally-developed software.

2. Software License Fees Inappropriately Capitalized

We found that DOL agencies inappropriately capitalized \$6,720,061 of software licenses acquired in fiscal year (FY) 2005, and \$2,366,037 acquired in prior years. According to GAAP, these costs should have been expensed in the year acquired. **We recommend that the CFO issue written guidance and monitor agency compliance over accounting for software licenses.** Management agreed with the recommendations and expensed approximately \$4.9 million of license fees in FY 2005 and plans to research the remaining amounts and make the appropriate adjustments in FY 2006. Management also agreed to issue relevant guidance and monitor agency compliance over accounting for software license costs.

3. Internal Control Weaknesses Noted for Job Corps Real Property

Our FY 2003 audit disclosed that the Employment and Training Administration (ETA) did not establish sufficient controls to ensure that capitalized real property was accurately recorded in the subsidiary system and general ledger. **We recommended that management record property transactions timely and make other improvements over accounting for real property.** In response to our prior year finding and recommendations, management concurred, and developed corrective actions designed to improve the internal controls over Job Corps real property. While many of these corrective actions were initiated, full implementation of proposed system changes and the physical inventory process are not yet complete. Management concurred and indicated that procedures were improved to ensure that newly finished structures entered into the subsidiary records were in accordance with the newly reorganized asset designation and identification system. In addition, a complete review of items in construction in progress (CIP) was performed, and appropriate adjustments were recorded in the subsidiary system for over 100 items. The documentation of the remaining completed projects was not available until near year-end, and could not be properly entered into CATARS before the closing of the books. Management made an adjustment for the value of the completed projects so as to properly present the effect of completing these construction projects. Work for all the remaining projects will be completed by December 31, 2005.

4. Inaccurate Grant Accounting

The OIG's FY 1999 audit disclosed various accounting errors in amounts recorded for ETA's grants and contracts. **The OIG recommended that management establish procedures to identify and correct accounting errors on a timely basis.** In response, ETA management concurred, and implemented various improvements designed to detect potential accounting errors. However, our FY 2005 audit continued to note accounting errors in grants selected for testing, and identified differences in the total costs reported by grantees in ETA's grant cost subsidiary and the corresponding amounts recorded in the general

ledger. ETA management concurred with our conclusions, and agreed to implement additional procedures to address these audit findings.

5. Deficiencies in Controls Over Unemployment Insurance (UI) Benefit Overpayments

The OIG's FY 2001 audit disclosed that UI overpayment data collected by the Benefit Accuracy Measurement (BAM) unit reflected significantly higher overpayments than those established and reported as accounts receivable, and that there was little change in the rate of overpayments (about 8.5 percent) since 1989. **The OIG recommended that management develop a plan to use the BAM data as the impetus for improving internal controls over the benefit payment process, and include procedures to identify statistically valid improvements, or lack thereof, in overpayment rates.** In response, management implemented corrective actions, including a Government Performance and Results Act (GPRA) goal, which they believed would result in a significant reduction in the detectable, recoverable overpayment rate. Management believes that the corrective actions taken in response to this finding have resulted in a significant reduction in the detectable, recoverable overpayment rate. However, we found that recent UI data does not reflect improvements in the rate of overpayments or in the rate measured with the GPRA goal.

6. Errors in Federal Employees Compensation Act (FECA) Medical Bill Processing

Our FY 2004 audit disclosed errors in the processing of FECA medical bills, which were attributed to the fact that management did not have a quality assurance and internal audit plan in place prior to implementation of a new medical bill payment system. Both prior to and in response to this finding, management took steps to correct some of the weaknesses identified in the audit. **We recommended that management move forward with full implementation of the proposed corrective actions, and adjust the accounting records accordingly.** In response, management implemented certain corrective actions to improve processing of medical bills. However, our FY 2005 audit identified that medical bills paid during the year were not consistently priced in accordance with the appropriate fee schedules. Management partially concurred with our recommendations, and indicated that corrective actions had already been implemented to resolve these audit findings.

7. Lack of System to Track FECA Medical Bill Receivables

Our FY 2004 audit disclosed that the Employment Standards Administration (ESA) did not have a system to track and record medical bill overpayments (receivables) and, accordingly, these receivables were not recorded in the general ledger. **We recommended that ESA develop and implement a system to identify and record receivables resulting from overpayment of medical bills.** In response, management indicated that the case management system, inclusive of the receivable system, would be deployed in FY 2005. However, our FY 2005 audit found that the system implementation was postponed to March 2006.

8. Lack of Current Medical Evidence to Support FECA Compensation Payments

Our FY 2003 audit disclosed that ESA did not have adequate controls to ensure that current medical evidence is maintained in the case files to support the continuing eligibility of claimants. **We recommended that management develop and implement effective controls to ensure Claims Examiners (CE) obtain and review medical evidence, as required by FECA program policy.** In response, management indicated that functions would be added to the new benefit payment system to identify the presence or absence of required medical evidence. However, we found that the planned functions were not added to the benefit payment system in FY 2005; rather, the current timeframe postpones implementation until March 2006. Management developed a corrective action plan that calls for the completion in March 2006 of an automated system to track the status of medical evidence in the case files.

9. Office of the Assistant Secretary for Administration and Management's (OASAM) Procurement Files Lack Sufficient Documentation

Our FY 2004 audit disclosed that OASAM's procurement files lacked sufficient documentation and were poorly organized. As a result, management was not able to demonstrate compliance with certain procurement regulations and with Federal Appropriations Law. **We recommended that management improve record maintenance, establish consistent practices, and develop a monitoring process to ensure compliance with applicable procurement requirements.** In FY 2005, OASAM implemented new policies and procedures that it believes ensure compliance with all Federal regulations and DOL requirements. OPS requested a class sole source and ratification authority for FY 2005 continuing service procurement actions. The request was approved and a Justification for Other Than Full and Open Competition (JOTFOC) was executed retroactive to October 1, 2004. Because the majority of procurement actions made by OPS in FY 2005 were for continuing services subject to the JOTFOC and/or ratification, we were unable to conclude as to whether or not OPS would be able to produce fully documented and compliant contract awards under routine operating procedures. We also found that OPS did not comply with certain reporting requirements of the JOTFOC. Management believes that procedural changes made to the procurement process have resolved the original audit findings, and has stated that the report required by the JOTFOC will be completed by the end of the first quarter of FY 2006. However, for the reasons stated above, the impact of the procedural changes made by OSASM will be evaluated in the FY 2006 audit.

10. Managerial Cost Accounting System Not Fully Implemented

The OIG's FY 2002 audit disclosed that DOL was not in compliance with the requirements for managerial cost accounting (MCA) contained in Statement of Federal Financial Accounting Standards (SFFAS) No. 4. In response, management developed plans to implement a department-wide managerial cost accounting system. **The OIG**

recommended that the CFO ensure full implementation of the plan within the established timeframes. In response, management developed a comprehensive plan to implement a department-wide MCA system that complies with the requirements of SFFAS No. 4. However, as of FY 2005, current cost information is not yet being widely used for decision making on a day-to-day basis. Management concurs, and has indicated that the Department's focus during FY 2006 will shift to expanding the use of cost information by managers at all levels for decision making on a day-to-day basis.

11. Errors Reported by States on ETA 2112 Not Corrected by ETA

On a monthly basis, states are required to submit form ETA 2112, UI Financial Transaction Summary Unemployment Fund, which provides a summary of transactions for the state unemployment fund. Our audit of UI activity recorded in FY 2005 identified that the state reporting entities did not consistently report certain UI transactions, and that ETA did not detect and correct these errors on a timely basis. As a result, the financial statements of the Department were misstated. **We recommend that additional instructions be provided to the UI reporting entities, and that ETA implement procedures to review data reported on the ETA 2112.** Management concurred with these findings, and indicated that various edit checks and reconciliation procedures will be implemented in FY 2006.

12. Weaknesses Noted Over ESA Benefit Program Accounting

ESA's Office of Management, Administration, and Planning (OMAP) performs the accounting for ESA's benefit programs. In FY 2005, we noted several instances when the accounting for these activities was not performed timely, completely, or accurately. These problems arose because ESA did not have detailed written procedures that would enable new staff to perform accounting activities in a timely manner. These accounting and reconciliation problems became apparent when OMAP experienced turnover in three key accounting positions. We recommend that management develop adequate detailed written procedures that address all significant aspects of its accounting and financial management; and implement other procedures to ensure that benefit program transactions are complete, recorded accurately and timely, and are reconciled between the general ledger and subsidiary records. Management generally concurred and has begun taking steps to address these recommendations.

Management Advisory Comments

Additional recommendations were made to management in an advisory capacity. These matters were not considered to be significant deficiencies in the internal control that would require disclosure as a reportable condition, as defined by applicable audit standards. These findings and recommendations are presented in the Management Advisory Comments section of this report.

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**Independent Auditors' Report on Findings
And Recommendations Identified in an Audit of the
Report on Performance and Accountability**

We have audited the Report on Performance and Accountability of the United States Department of Labor (DOL) for the year ended September 30, 2005, and have issued our report thereon dated November 10, 2005. 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

***Findings and Recommendations Identified in an
Audit of the Report on Performance and Accountability***

design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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 fiscal year (FY) 2005 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 Information Technology (IT) systems that support the financial statements in accordance with Government Accountability Office (GAO) audit guidelines. A separate report will be issued to the Chief Information Officer containing IT-related findings and recommendations for resolution.

The Independent Auditors' Report, which expresses our opinion on the fair presentation of DOL's Fiscal Years 2005 and 2004 principal financial statements, and our reports on internal control and compliance with laws and regulations, are presented in the Department's FY 2005 Performance and Accountability Report.

In order to provide information to management that could help in the development of responses and corrective actions for the reportable conditions and 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.

R. Navarro & Associates, Inc.

November 10, 2005

Reportable Conditions

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Finding 1 - Incomplete Capitalization of Internal-Use Software

SFFAS No. 10, which became effective for periods that begin after September 30, 2000, defines internal-use software as 1) software purchased from commercial vendors, 2) software internally developed, or 3) software developed by a contractor solely to meet the entity's internal or operational needs. SFFAS No. 10 requires that all software development stage activity costs with respect to internal-use software be capitalized, and all preliminary design and post-implementation activity costs be expensed. SFFAS No. 10 also requires that Federal agencies capitalize all direct and indirect costs related to the internal-use software development phase.

Our audit identified DOL has not capitalized all project costs for internal-use software in accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 10. Specifically, DOL agencies did not capitalize software development costs such as: (1) direct salary and fringe benefit costs of Federal employees involved; and (2) related indirect costs such as overhead, rent, and travel. As a result, the balances in Department of Labor Accounting and Related Systems (DOLAR\$) asset account 1830 Information Technology Software and the related account 1839 Accumulated Amortization Automated Data Processing (ADP) Software are understated, and the current annual expense is overstated.

DOL implemented the SFFAS No. 10 requirements in the Department of Labor Manual Series (DLMS) 6 - Financial Management Chapter 700, Section 740 - Management of Capitalized Internal-Use Software. DLMS 6 establishes a requirement that DOL agencies capitalize internal-use software with a development cost of \$300,000 or more and that has a projected useful life of 2 years or more. Section 741.1 provides the following examples of categories of direct and indirect costs that DOL agencies should capitalize during the software development phase for a particular project:

- Commercial off-the-shelf software;
- Contractor/consultant costs;
- Federal employees' salaries and benefits; and
- Contractor/consultant and/or Federal employee travel costs, and space rental costs.

The DLMS also provides that any of the above category of costs determined to be immaterial for a particular project will be expensed, not capitalized.

The Chief Financial Officers Act (CFOA) of 1990 specifies that the agency CFO will provide policy guidance and oversight of agency financial activities associated with asset management systems such as property management. On November 16, 2000, the CFO issued a policy memorandum notifying DOL agency administrative officers about the SFFAS No. 10 requirements, and providing guidance for recording the accounting transactions into DOLAR\$ for internal-use software.

The Office of Chief Information Officer (OCIO) provided us a list of 12 agencies that had internal-use software projects either in development or completed for FYs 2004 and 2005. We sent a questionnaire to these agencies requesting information on their internal-use software projects such as their policies and procedures for determining costs associated with the internal-use software, the methodologies used for allocating Federal salaries and other direct and indirect costs related to the development of the internal-use software. We also inquired whether the agencies were aware of the SFFAS No. 10 requirements and DOL policies on accounting for internal-use software costs. Eleven agencies responded to our questionnaire.

From the responses to our questionnaire, we determined there were 22 internal-use software projects either developed or completed during FYs 2004 and 2005. We computed that the costs of these projects totaled \$109,812,521. The agencies did not capitalize any of these costs. Three of the agencies responded that they were not aware of the SFFAS requirements to capitalize all Federal direct and indirect cost. We concluded that this occurred because of inadequate Office of Chief Financial Officer (OCFO) monitoring of DOL agencies' accounting for the cost of the development and implementation of internal-use software to ensure they are complying with the capitalization requirements.

OCFO officials told us they recognize the problem and agree that they need to improve monitoring of DOL agencies' compliance with the accounting for internal-use software. The OCFO started corrective action to determine the costs that were not capitalized and told us they will enter all costs meeting the capitalization requirements into DOLAR\$ and Capitalized Asset Tracking and Reporting System (CATARS). The OCFO completed this by the end of FY 2005. However, OCFO officials told us they believe indirect costs are not material and, therefore, do not have to be capitalized. They stated the process for determining indirect costs would be burdensome.

The actions taken by OCFO ensured internal-use software was accurate by the end of FY 2005. However, the OCFO needs to provide us documentation to support their decision that the indirect costs for the internal-use software development stage would not be material. Even if OCFO determines that prior year indirect cost for all internal-use software development is immaterial, it should still ensure DOL agencies properly account for all future cost for internal use software in accordance with SFFAS No. 10.

Recommendation

We recommend OCFO again notify DOL agencies of their requirements to account for costs related to internal-use software and monitor to ensure they properly account for these costs in accordance with Federal and departmental requirements.

Management's Response

The OCFO agrees with the recommendation and will monitor agency compliance, reissue the guidance for capitalizing costs of internally-developed software and will document the determination on indirect costs. We will monitor compliance by either meeting with the agencies at least quarterly to discuss any new and existing projects that may require capitalization and the agencies compliance therewith or obtaining written confirmations of this same information. We will also add this to the quarterly certifications if we feel that is needed to support compliance. The guidance, monitoring and documentation will be completed by January 31, 2006.

The OCFO worked with the agencies and determined that \$53 million of internally-developed software costs needed to be capitalized and such costs were capitalized in FY 2005. We believe that the difference between the \$53 million and the \$109 million determined by the auditors primarily represents maintenance costs that were properly expensed. In addition, in FY 2004 the OCFO did properly capitalize internally-developed software costs for the following projects: Cost Analysis Manager (CAM), new financial management system, NFC payroll migration, E-procurement and E-travel.

Auditors' Conclusion

We concur with management's planned corrective action and that the difference between the \$53 million and the \$109 million represents maintenance costs that were properly expensed. We consider this recommendation **resolved and open**. Closure is dependent upon issuance of relevant guidance, documentation of indirect costs, and implementation of monitoring procedures as proposed by management. In addition, closure is dependent upon a positive outcome of testing conducted in the FY 2006 audit.

Finding 2 - Software License Fee Inappropriately Capitalized

Software licensing allows DOL to purchase one copy of a software program and legally install it on specified computers or, a network. Although SFFAS No. 10 did not address capitalizing licensing fees within the body of the standard, in the Basis for Conclusion section, the Federal Accounting Standards Advisory Board stated that it would be appropriate for Federal agencies to apply lease-accounting concepts to licenses. It's appropriate for Federal agencies to follow the lease accounting concepts provided in SFFAS Numbers 5 and 6, as well as appropriate policies for capitalization thresholds in determining whether software license fees should be capitalized. (DOL has established a threshold to capitalize internal-use software that has a cost of \$300,000 or more and a projected useful life of 2 years or more.)

DOL agencies are capitalizing the costs of software license fees that should be expensed. This occurred because the DLMS does not provide any requirements or guidance on how DOL agencies are to account for software license fees in DOLAR\$.

***Findings and Recommendations Identified in an
Audit of the Report on Performance and Accountability***

We identified \$6,720,061 of software licenses in current year capitalized accounts that should have been expensed, and \$2,366,037 of software licenses acquired in prior years that was capitalized but should have been expensed. As a result, the asset accounts 1750 – Equipment, 1759 - Accumulated Depreciation Equipment, 1830 – Information Technology Software, and 1839 - Accumulated Amortization ADP Software are overstated, and the current year expenses are understated.

SFFAS No. 6, Chapter 2 Definitions paragraph 20 states:

Capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee. If, at its inception, a lease meets one or more of the following criteria, the lease should be classified as a capital lease by the lessee. Otherwise, it should be classified as an operating lease.

1. The lease transfers ownership of the property to the lessee by the end of the lease term.
2. The lease contains an option to purchase the leased property at a bargain price.
3. The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.
4. The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost, equals or exceeds 90 percent of the fair value of the leased property.

Since software license fees purchased by DOL agencies do not meet any of the above definitions, they should have not been capitalized.

During our testing of FY 2005 entries into DOLAR\$ accounts 1750 – Equipment and 1830 – Information Technology Software, we identified the following software licenses capitalized that should have been expensed:

| <u>GL</u> <u>Account</u> | <u>Invoice</u> | <u>Doc</u> <u>Number</u> | <u>Description</u> | <u>Inventory</u> <u>Number</u> | <u>Cost</u> |
|-----------------------------|----------------|-----------------------------|----------------------------|-----------------------------------|--------------------|
| 1750 | 36831291 | BPA04010 | Microsoft EA Agree | ITC95021 | \$4,959,392 |
| 1830 | 295278101 | B09632385 | Microsoft | ITC95022 | \$602,672 |
| 1750 | 295385801 | F049610781 | Microsoft MSHA | ITC95023 | \$468,073 |
| 1830 | 295278101 | B09632385 | Microsoft | ITC95022 | \$489,131 |
| 1830 | 19810 | B9631827 | Quarterly Lease Payment | ITC95020 | <u>\$200,793</u> |
| Total | | | | | \$6,720,061 |

We also reviewed the CATARS report as of March 31, 2005, and identified \$2,366,037 of additional licenses acquired in prior years that agencies capitalized instead of expensed.

Recommendations

We recommend that the Chief Financial Officer:

- 1. Issue guidance in the DLMS regarding the appropriate method for accounting for software licenses;**
- 2. Monitor all DOL agencies to ensure compliance with the guidance; and**
- 3. Expense current year licenses of \$6,720,061 that were capitalized, and research the \$2,366,037 of prior year licenses that were capitalized, and determine if an adjustment is required in DOLAR\$.**

Management's Response

The OCFO agrees with the recommendation. Approximately \$4.9 million of license fees was expensed in FY 2005 and, after further research, the remaining amounts noted by the auditor were expensed in October 2005. The OCFO will implement procedures to ensure that agencies are not capitalizing software license fees. New guidance on accounting for software license fees will also be issued. We will review CATARS on a monthly basis to determine if any costs were improperly capitalized. As noted above we will also meet with the agencies as needed to discuss their compliance with the issued guidance. The guidance and monitoring will be completed by March 31, 2006.

Auditors' Conclusion

We concur with management's response and consider these recommendations **resolved and open**. Closure is dependent upon issuance of relevant guidance and implementation of review procedures as proposed by management. In addition, closure is dependent upon a positive outcome of testing conducted in the FY 2006 audit.

Finding 3 - Internal Control Weaknesses Noted for Job Corps Real Property

In the FY 2004 DOL Audit (DOL Report No. 22-05-001-13-001), we reported that ETA did not sufficiently use CATARS as a complete property management system in accordance with the CATARS user guide. We also found that ETA did not establish sufficient controls to ensure that Job Corps' capitalized real property was accurately reported in CATARS and the general ledger.

In the FY 2004 report, we made the following recommendations:

Recommendations

We recommend the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that additions and dispositions are recorded timely in CATARS by developing and implementing quarterly procedures to:

- ***Transfer CIP balances recorded in CATARS to the appropriate depreciable-asset account, where the Division of Budget and Facilities Support (DBFS) records of contracts/structures indicate that Certificates of Substantial Completion have been issued;***
- ***Reconcile DBFS records for dispositions to the Architecture and Engineering (A&E) contractor records and to entries in CATARS; and***
- ***Reconcile DBFS records of additions and deletions to Office of Financial and Administrative Services (OFAS) records of additions and deletions recorded in CATARS.***

ETA now has procedures in writing that address these recommendations in Section 4.5.2 of their National Accounting Policies and Procedures Manual.

Our testing of additions and dispositions showed that ETA has not completely corrected the problem. ETA officials told us they expected to complete corrective action before the end of the fiscal year. Subsequently, ETA informed us that corrective action would not be completed until FY 2006.

Additions

Our review of the Job Corps construction in progress (CIP) account showed it still contains completed capitalized construction projects. As of August 31, 2005, the number of contracts in the CIP account totaled 198 with an approximate value of \$144 million. We identified 18 CIP contracts that were completed and should have been transferred from CIP to the buildings or leasehold improvements account. The value of these completed projects was \$55.5 million. We identified three other contracts that were not for construction projects and should not be in the CIP account. The value of these contracts was \$2.8 million.

During the audit work, ETA informed us that the CIP account still included completed capitalized construction projects that have not been transferred out of CIP because they wanted to complete corrective action on the property items with vague description. Their strategy is to apply the process used to correct the items with vague descriptions to the process to ensure that completed capitalized construction projects are adequately identified before transferring them from CIP to the applicable asset account in CATARS. However, ETA later informed us that corrective action would not be completed by September 30, 2005. The 18 completed projects we identified would not be transferred out of CIP until FY 2006.

Dispositions

Our audit found that Job Corps center (JCC) buildings disposed of or no longer in service are being reported in CATARS as depreciable assets. For the 12 JCCs audited during our FY 2005 audit, we selected a statistical sample of 442 depreciable real property items from the March 31, 2005 CATARS. The auditors found that six items were disposed of or no longer in use, but still reported in the March 31 and June 30, 2005 CATARS. The total book value for the six items was \$405,191.

According to ETA management, the problem with ensuring that disposed of or unused property is removed from CATARS will be corrected when all the physical inventories are completed.

The recommendation remains **resolved and open**. OIG agrees with ETA's strategy to correct and update CATARS before moving completed projects out of CIP. However, the recommendation will not be closed until there is a complete update of additions (CIP) and dispositions in CATARS and DOLAR\$.

Management's Response

ETA performed a complete review of items in CIP, and moved over 100 old items out of CIP during the year. In addition, changes were made in the information flows and entry procedures relating to completed contracts to ensure that newly finished structures were entered into CATARS assets properly in accordance with the newly reorganized asset designation and identification system. Approximately half of the construction projects completed during FY 2005 were properly transferred from CIP to assets using these new procedures and information flows. The documentation of the remaining completed projects was not available until near year-end, and could not be properly entered into CATARS before the closing of the books. Management made an adjustment for the value of the completed projects so as to properly present the effect of completing these construction projects. Work for all the remaining projects will be completed by December 31, 2005. Controls will be implemented to ensure that all transfers and reconciliations are performed on a timely basis.

Management believes that, based on the implementation of effective procedures as verified by the auditor, the internal control problem identified in the finding and recommendation has been addressed, and the recommendation should be closed or moved to the Management Advisory Comments until the auditor can verify that the completed projects have been moved to assets.

Auditors' Conclusion

The recommendation remains a reportable condition and is considered **resolved and open**. We agree with management's position that each building must have a properly documented cost and description before it is transferred out of CIP. However, the recommendation remains open because of the high volume of completed buildings still in CIP. The recommendation will be closed when the transfers are completed.

We recommend the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that procedures are implemented to ensure that sufficient descriptive details of all capitalized property items are obtained and corrected in CATARS for existing property, and the details are added to CATARS for future acquisitions.

In our FY 2004 audit, we found that procedures had not been developed to ensure that all descriptive details of all capitalized real property items are obtained and corrected in CATARS for existing property and all future acquisitions. Additionally, we found that CATARS was not consistent with information in the site surveys.

ETA now has controls that address the recommendation in their National Accounting Policies and Procedures Manual. The manual assigns responsibility to OFAS for all accounting of ETA's capitalized assets. One of OFAS's responsibilities is obtaining information from Job Corps' DBFS to update capital acquisitions, improvements and dispositions. ETA explained that a staff accountant within OFAS consults with DBFS to verify the description and cost for each new building. This procedure is required before any new building is removed from the CIP account and transferred into the buildings or leasehold improvements account.

During our FY 2005 audit, ETA explained to us that it has researched construction contracts and worked with Job Corps' DBFS to identify all buildings and land separately. They matched information obtained from the contracts with the centers site surveys to "unbundle" real property that had previously been lumped together under one description and cost. ETA said it is using the results from the current Job Corps center physical inventories to verify building descriptions. ETA anticipated having this completed by the end of the FY05. However, ETA had not completed the process for correcting the vague descriptions at the time of our interim testing. In addition, the results from the physical inventories will not be completed until FY 2006. Therefore, this recommendation remains **resolved and open**. The closure of the recommendation depends on the results of OIG's review and testing of CATARS for corrected property descriptions.

Management's Response

In its FY 2005 review of the asset descriptions performed after management had completed the CATARS review and clean-up, the auditor identified 8 structures which

had inadequate descriptions. The 8 items represent 0.2% of the 3,500 structures and their original cost of \$17 million is about 1.5% of the \$1.2 billion in structure gross cost. While the physical inventory is not complete, none of the adjustments related to the inventory so far completed have been material, no major errors in the description revisions have been noted, and no material adjustments are expected to be received in the remaining inventories.

Management believes that this finding should be closed.

Auditors' Conclusion

The recommendation is **closed** based on the corrective actions taken by management in FY 2005.

Finding 4 - Grant Accounting Errors

In the FY 1999 audit (OIG Report No. 12-00-003-13-001), the OIG reported that significant errors were made in amounts recorded for ETA's grants and contracts activity, due to a lack of sufficient internal control procedures.

In the FY 1999 report, the OIG made the following recommendation:

Recommendation

We recommend 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).

Over the years, ETA has implemented various actions in an attempt to alleviate grant accounting errors. ETA issued Regional Office accounting procedures as well as Employment and Training Order (ETO) No. 1-03, *Improving Administration of Grants within the Employment and Training Administration*, which clarified the roles and responsibilities of ETA staff in grants administration and monitoring. In FY 2005, ETA pushed forward and completed the interface between the grant-cost subsidiary ledger and DOLAR\$, in order to eliminate errors created in the manual data-transfer process.

Despite the efforts made by ETA, our FY 2005 audit continued to identify errors in ETA's grants and contracts. We identified differences (in grant costs) between the amount recorded in the subsidiary records and the amount recorded in DOLAR\$, as follows:

| | (Absolute Value) |
|---|------------------|
| State Employment Security Act (SESA) grants | \$ 76.0 million |
| National Emergency grants | \$ 63.6 million |
| Workforce Investment Act (WIA) grants | \$ 9.9 million |
| Migrant grants | \$ 8.0 million |
| Native American grants | \$ 3.6 million |

ETA initiated a reconciliation process in FY 2005 designed to detect differences between the subsidiary and general ledger; however, the process did not include sufficient procedures to follow up and correct differences noted in the reconciliation. ETA believes, and we concur, that many of these differences are not actual misstatements but are caused during the closeout process whereby grantees fail to submit final cost reports through the cost-subsidiary system. According to ETA, the reconciliation process will be improved to include identification and correction of those differences that represent amounts misstated in DOLAR\$.

Additional errors were identified in our statistical sample of grants and contracts, as follows:

- 7 out of 96 grants tested (7.3 percent) had misstated or unsupported obligation balances;
- 6 out of 90 grants tested (6.7 percent) had misstated or unsupported cost balances; and
- 4 out of 92 grants tested (4.3 percent) had misstated or unsupported payment balances.

Many of the errors detected in our sample were related to regional office contracts that were transferred in FY 2005 to the national office. These files were not well organized, and in some cases the contract documents were actually misfiled. ETA believes that accounting errors and other exceptions noted for these contracts were primarily due to the transition of duties from the regional to the national office, and that future periods will reflect improved results. While the dollar amounts involved were not considered to be material, misfiled documents increase the risk of error and make it difficult to research/reconcile contract activity.

Overall, we concur with the corrective actions taken by ETA in FY 2005, but conclude that additional procedures are needed to ensure that grant transactions are recorded accurately and timely. This recommendation is changed from unresolved to **resolved and open**. Closure depends upon full implementation of the reconciliation process and a positive outcome for grant testing conducted during the FY 2006 audit.

Management's Response

Management concurs with the finding, and will implement additional procedures to address the errors by March 31, 2006.

Auditors' Conclusion

Our audit conclusion remains unchanged.

Finding 5 - Deficiencies in Controls Established to Prevent Unemployment Insurance Benefit Overpayments

In the FY 2001 audit (OIG Report No. 22-02-004-13-001), the OIG reported certain deficiencies in the internal controls over Unemployment Insurance benefit payments. The UI overpayment data collected by the BAM unit reflected that UI overpayment rates from 1989 through 2001 remained relatively flat, at around 8.5 percent. The report also noted that the BAM data reflected significantly higher overpayments than those detected and reported by the states' Benefit Payment Control (BPC) system, \$2.3 billion versus \$669 million, respectively.

In the FY 2001 report, the OIG made the following recommendation:

Recommendation

We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that the Office of Workforce Security (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.***

In response to this finding, management indicated that a significant portion of the \$2.3 billion in overpayments represented instances which were considered to be non-recoverable or not detectable given current operating procedures. Nevertheless, management provided the OIG with a detailed corrective action plan that described planned changes to the methods in which BAM and BPC UI overpayments would be measured and compared, as well as proposed GPRA measures and goals. In FY 2004, passage of a new law allowed state UI agencies access to the National Directory of New Hires (P.L. 108-295). Use of this directory was piloted by three states in FY 2005, and management provided a report analyzing the results of those pilots. The report concluded that access to the directory provides a "significant benefit" to states in

identifying and reducing UI overpayments. Management believes that as more states gain access to the directory, the national overpayment rates will decrease.

We generally concur with management's corrective actions taken to date. However, the effects of those efforts have not yet been reflected in the actual UI-benefit overpayment rate. The published UI-benefit overpayment rates for calendar years (CY) 2004, 2003, and 2002 were 9.9 percent, 9.3 percent, and 9.1 percent respectively, each year reflecting an increase rather than a decrease in the rate of overpayments.

(Management provided additional information which indicated that the BAM rate at June 30, 2005, dropped to 9.3 percent.) This recommendation remains **resolved and open** pending evidence that the corrective actions taken by management have resulted in earlier and improved detection of amounts overpaid, and have effectively lowered the rate of benefit overpayments.

Management's Response

Management believes that the corrective actions taken have been effective and have resulted in a decrease in the error rate. As will be reported in the FY 2005 Performance and Accountability Report, the error rate was reduced from 9.7% in FY 2004 to 9.46 % in FY 2005; the target for FY 2005 was 9.5%. Meeting this published and OMB approved target was one of the key requirements needed for DOL to achieve a Green score for eliminating improper payments in the Presidents Management Agenda, which DOL achieved as of September 30, 2005. For these reasons, we believe that we have fully satisfied the requirements of this finding and it should be closed.

Auditors' Conclusion

The FY 2005 rate reported by management in the FY 2005 PAR was based on data obtained through June 30, 2005, whereas the data used for our audit evaluation was based on annual published data for the years ended December 31, 2004, 2003, and 2002. We conclude that six additional months of data is not sufficient evidence to substantiate a permanent downward trend in the UI overpayment rate. Furthermore, the overpayment rate reported by management for FY 2005 (9.46 percent) reflects an increase from the rate reported in 2001 with the original audit finding (8.2 percent). This recommendation remains **resolved and open** pending conclusive evidence that the corrective actions taken by management have resulted in earlier and improved detection of amounts overpaid, and have effectively lowered the rate of benefit overpayments.

Finding 6 - Errors in FECA Medical Bill Processing

In September 2003, ESA's OWCP contracted with a third party, to perform medical bill processing for FECA claimants. In our FY 2004 audit report (OIG Report No. 22-05-001-13-001), we identified various errors in the processing of medical bills, resulting in overpayments and underpayments to providers.

The types of errors that were identified include:

- Keying/scanning error
- CCR¹ fee schedule used instead of DRG² formula
- Line items denied improperly
- Documentation not provided
- Duplicate payments
- Other fee schedule calculations

Without adequate controls over the processing of medical bill payments, OWCP cannot ensure that amounts paid were correctly calculated in accordance with the fee schedules. As a result, medical bill providers were overpaid and underpaid, resulting in misstated medical benefit expense. The misstatements had a direct effect on the benefit expense chargebacks to other Federal agencies and also effected, to a lesser degree, the actuarial liability calculation.

In the FY 2004 report, we made the following recommendation:

Recommendation

We recommend that the Chief Financial Officer ensure that the Assistant Secretary for Employment Standards fully implements corrective actions that have been proposed or initiated by OWCP, and that the accounting records are adjusted to reflect identified misstatements.

Both prior to and in response to our audit findings, management took steps to correct some of the weaknesses identified, which were primarily a result of miscommunication with the contractor on how to handle certain types of bills, difficulty in distinguishing between regular outpatient bills and bills from Ambulatory Surgical Centers, bill keying and scanning errors, and an incorrectly set duplicate pay edit.

However, in our FY 2005 testing, we performed internal control tests of 216 medical bills and found that 12 bills (5.6 percent) were not priced correctly in accordance with the

¹ Cost to Charge Ratio tables (used to calculate reimbursement based on the state where services were provided)

² Diagnostic-related group (method of calculating reimbursement based on individual hospital specific cost index)

OWCP fees schedules. We identified that management needs to take additional actions to reduce these errors, including:

- Modify the duplicate pay edit to allow travel vouchers the same day to different locations;
- Ensure that version changes to Grouper/Pricer are controlled and documented;
- Improve controls over the fee schedule changes, so that the effective date is not before the implementation date; and
- Strengthen the controls over the manual override function.

Therefore, this recommendation is changed to **unresolved**, pending receipt and review of a corrective action plan with timeframes for completion. The corrective action plan should specifically address duplicate pay edits related to travel vouchers, version changes to Grouper/Pricer software, controls over fee schedule changes, and controls over the manual override function.

Management's Response

We disagree with the auditors in two of their findings: (1) the need to modify the travel voucher duplicate edit and (2) the need to ensure that version changes to Grouper/Pricer be further controlled and documented. Although we agree with the remaining two findings, these issues had been identified and at least partially resolved prior to the beginning of the audit.

The Central Bill Processing system currently supports the accurate processing of same day travel vouchers to different locations, therefore system changes are not required.

At present, there are five levels of duplicate edits in the CBP, ranging from exact duplicate (most severe) to possible conflict (least severe). For travel bills, only the exact duplicate edit is applicable. The exact duplicate criteria for travel bills is:

- *Equal SSN*
- *Equal Dates of Service*
- *Equal Procedure Code*
- *Equal Trip Code*
- *Equal Departure Location*
- *Equal Destination Location*
- *Equal Billed Charge*

If any of the above criteria is not the same (including location) the travel bill will not post a duplicate edit, but allow the bill to continue processing. OWCP sees no need to modify the duplicate edit function.

Since the Central Bill Processing service began, version changes to Grouper/Pricer software have been controlled and documented through the Customer Service Request

(CSR) process. Each CSR is uniquely identified for control and documentation. Grouper/Pricer software updates are treated as “ACS Maintenance Request” with “High” priority. In addition, both OWCP and ACS are independently notified by the Grouper/Pricer software vendor (3M) of updates as a further control. We do not believe additional controls are necessary in this process.

The yearly fee schedule changes occur during the first quarter of the CY and in the past, OWCP has assigned effective dates that are the same or after the implementation dates. However, during the 2005 update, the effective dates were changed erroneously. OWCP initiated a Customer Service Request (CSR) to rectify the error. A series of meetings held in the March-April 2005 timeframe clarified the maintenance process. The process revisions from these meetings will prevent any similar occurrences.

The procedures for activating the manual override function for bills from specified claimants and/or providers have been refined. These are contained in FECA PM Chapter 5-202, “Fee Schedule Appeals, Bill Adjustments and District Director Exceptions and Case/Provider on Review” and their implementation is scheduled for the last quarter of CY 2005.

Additional Comments Provided by the OCFO

The CFO supports the completion of the corrective actions described above to fully address and resolve the recommendation. However, we would like to add that the sampling of medical payments performed in connection with the annual audit disclosed a very low projected error rate of only 0% to .4%. As such, we believe that this recommendation should be moved to the Management Advisory Comments.

Auditors’ Conclusion

Our audit conclusions are based on the results of internal control tests conducted for a random sample of medical bills paid in FY 2005. Management’s comments regarding Grouper/Pricer controls and travel voucher duplicate edits describe controls put into place subsequent to completion of the audit fieldwork. The effectiveness of these controls will be evaluated and tested in the FY 2006 audit. Nevertheless, based on the corrective actions taken and proposed, this finding is considered **resolved and open**. Closure of the recommendation is dependent upon completion and implementation of all corrective actions described by management, and a successful outcome for testing conducted in the FY 2006 audit.

As to the concerns expressed by the OCFO, we concur that the errors identified in the sample did not result in material misstatements. However, significant errors could occur in the future if the identified control weaknesses are not corrected.

Finding 7 - Lack of System to Track Certain FECA Medical Bill Receivables

In our FY 2004 audit report (OIG Report No. 22-05-001-13-001), we noted that ESA had not implemented a system to track and record medical bill overpayments (receivables). The Joint Financial Management Improvement Program (JFMIP) Benefit Systems Requirements identifies Recovery Receivable Management as one of the nine major functions of a Federal benefit system. Overpayments identified by ESA were set up using an ad hoc method of tracking and collecting these overpayments. Without an adequate receivable recovery system, collection of receivables could not be effectively managed and monitored, which could result in the failure to collect recoverable amounts. In addition, these receivables were not being captured in the Department's general ledger, resulting in an understatement of accounts receivable estimated at approximately \$2 million to \$4 million.

In the FY 2004 report, we made the following recommendation:

Recommendation

We recommend that the Chief Financial Officer ensure that the Assistant Secretary for Employment Standards develops and implements the receivable system for the identification, tracking, and reporting of medical benefit overpayments in accordance with JFMIP requirements and ensure that the accounting records are adjusted to reflect all current receivables.

Management responded to our FY 2004 audit report that the medical bill receivable function in the new Integrated Federal Employees Compensation System (iFECS) will be functional by September 30, 2005; however, due to delays in the final development in iFECS, the timeline has since changed to March 2006. Therefore, this finding is **resolved and open**, pending the effective implementation of this receivable function within iFECS, and a positive outcome of testing conducted during the FY 2006 audit.

Management's Response

Management will complete the implementation of the receivable function within iFECS by March 2006 and implement procedures to reconcile on a monthly basis to the Department's general ledger.

Auditors' Conclusion

The recommendation remains **resolved and open** until the receivable function has been implemented, and the accounting records have been adjusted to reflect all current receivables.

Finding 8 - Lack of Current Medical Evidence to Support FECA Medical Benefit Payments

In our FY 2003 audit report (OIG Report No. 22-04-002-13-001), we reported that ESA's OWCP did not have effective controls to ensure Claims Examiners (CEs) request and receive current medical evidence timely. The process relied upon the ad hoc tracking systems utilized by individual CEs in each of the District offices to ensure compliance.

Because OWCP staff did not follow its procedures, they could not take steps to suspend or terminate benefits if the medical evidence did not support continuing eligibility. Without adequate procedures for obtaining and reviewing current medical evidence, the risk of improper payments increases.

In the FY 2003 report, we made the following recommendation:

Recommendation

We recommend that the Chief Financial Officer ensure that the Assistant Secretary for Employment Standards develops and implements effective controls (e.g. automated procedures) that will ensure Claims Examiners obtain and review current medical evidence as required by FECA program policy.

In our FY 2004 audit testing, we found that Management had not implemented corrective action and reported this in our FY 2004 audit report (OIG Report No. 22-05-001-13-001). In response to our reports, Management submitted a corrective action plan with timeframes for completion. DOL implemented a new automated benefit system, iFECS, in FY 2005. Management has indicated that iFECS includes a periodic entitlement review (PER) application that determines the presence or absence of current medical evidence in the file. This will then update the CE task and reminding lists through the Workload Organization Window (WOW) application. Supervisors will be able to sort the lists for overdue tasks. Management initially expected these functions to be fully operational by September 30, 2005, but due to delays in the final implementation of iFECS, this has since changed to March 2006.

In our FY 2005 testing, we tested 105 compensation transactions, of which 84 bills required medical evidence to be obtained within the past year. Of these 84 items, 6 did not have medical evidence in the case file (7 percent). In addition, to these 105 items, we tested an additional 100 cases where we determined that medical bills had not been paid on the case in over 2 years, suggesting that the file may not have current medical evidence. Of these 100 cases, we noted 37 did not have current medical evidence. These results are consistent with the errors we have noted in prior years.

Therefore, this finding is **resolved and open**, pending the effective implementation of the improved functionality of the WOW application within the iFECS system, and a positive outcome of testing conducted during the FY 2006 audit.

Management's Response

Management will complete the implementation of the remaining functions within iFECs by March 2006 and perform a review to ensure that current medical evidence is on file.

Auditors' Conclusion

This recommendation remains **resolved and open** pending the effective implementation of the WOW application, and upon evidence obtained in subsequent audits which indicates that required medical evidence is consistently obtained and reviewed in accordance with FECA program policy.

Finding 9 - OASAM's Procurement Files Lack Sufficient Documentation

In the FY 2004 audit report (Final Report No. 22-05-001-13-001), we reported that four procurement files selected in our judgmental sample of ten, which had activity during FY 2004, lacked sufficient documentation and were poorly organized. As a result, management was not able to demonstrate compliance with the sections of the Federal Acquisition Regulation (FAR) pertaining to contract competition for three contracts.

In the FY 2004 report, we made the following recommendations:

Recommendations

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

- ***Ensure completion of policies that are currently being implemented to train staff, improve record maintenance, and establish consistent procurement practices designed to promote a better understanding and compliance with FAR and DLMS polices and procedures.***
- ***Ensure development of a monitoring process to ensure compliance with FAR and DMLS requirements.***

In response to this finding, OASAM implemented a series of policy and procedural changes designed to improve record maintenance, ensure consistent and compliant procurement practices, and raise awareness and proficiency in the procurement award process. Files were reorganized, and our review of a sample of 10 FY 2005 procurement actions identified a significant improvement in that regard.

However, the Office of Procurement Services' (OPS) assessment of FY 2005 procurement activities identified that contract renewal actions were not processed by October 1, 2004, in full compliance with the FAR, which lead to a significant decision

regarding the authorization for FY 2005 contract awards. OPS requested a class sole source and ratification authority for FY 2005 continuing service procurement actions. The request was approved by the Procurement Review Board (PRB) and a Justification for Other Than Full and Open Competition (JOTFOC) was executed. Approval was granted retroactive to October 1, 2004.

We were informed by OPS that the vast majority of procurement actions made by OPS were for continuing services subject to the JOTFOC and/or ratification. In fact, 7 of the 10 procurement files randomly selected for our audit contained contract awards issued under the sole source and/or ratification authorization. For this reason we were unable to conclude as to whether or not OPS would be able to produce fully documented and compliant contract awards under routine operating procedures, pursuant to applicable procurement laws and regulations.

In addition, the authorizing ratification document signed November 23, 2004, from the Assistant Secretary for Administration and Management stated, "This approval is contingent on the receipt of the monthly reports detailing individual contract actions awarded under this authority along with the planned or actual procurement strategies to assure full FAR compliance next year. The first such report is required by January 10, 2005." We found that OPS did not comply with this provision, and was unable to produce complete monthly reports or other records tracking individual contract actions awarded subject to this authority. (Two reports were submitted by OPS, however, neither included the required information as to the contracts awarded under the ratification authority.) OPS stated that due to the workload, and the need to do extensive corrective actions and retrain staff, planned resources were not available to comply with this requirement. OPS also indicated they expect to complete the detailed information within the first quarter of FY 2006.

Based on these facts, these recommendations remain **resolved** and **open** pending evidence that future OASAM procurements not subject to the sole source ratification are sufficiently documented and demonstrate full FAR compliance. This will be reviewed in the FY 2006 audit.

Management's Response

As noted above by the auditor, following the OIG's FY 2004 audit (No. 22-05-001-13-001), OASAM implemented a series of policy and procedural changes designed to train staff, improve record maintenance, and establish consistent procurement practices to promote a better understanding and compliance with FAR and DLMS policies and procedures. OASAM has now implemented a full range of actions in OPS to implement these recommendations, including:

- *Hiring additional qualified staff in the Office of Procurement Services (OPS) with requisite training--specifically two division chiefs and three senior specialists;*

**Findings and Recommendations Identified in an
Audit of the Report on Performance and Accountability**

- Contracting for additional procurement specialist support staff, also with updated training;
- Completion of formal procurement training by four OPS staff;
- Enrolling three OPS staff in Defense Acquisition University training classes;
- Providing on-the-job training on general procurement practices and the use of required DOL and government-wide systems, such as the DOL E-Procurement System (EPS) and GSA's Federal Procurement Data System-Next Generation (FPDS-NG), and Federal Business Opportunities;
- Supplemental training provided for OPS staff, including small business outreach training targeted toward meeting DOL's service-disabled veterans small business goal and the Annual DOL Procurement Training Conference;
- Purging active procurement files and completing tracking sheets as contracting modifications are processed;
- Reorganizing purchase order files for 2004 and 2005, filing them numerically so that documents can be easily located;
- Establishing procedures to filing backup documentation for procurement actions;
- Implementing procedures requiring original documents to be submitted when modification documents or orders are reviewed, to ensure that documents are tracked and controlled;
- Establishing procedures to complete EPS documentation to populate automated procurement data systems (e.g., EPS Reports and FPDS-NG);
- Issuing guidance to DOL EPS users to ensure all required procurement data is entered into the system and emphasizing the use of EPS as a management tool;
- Posting OPS Bulletins on LaborNet (<http://labornet.dol.gov/eps/OPS1.htm>) for DOL customers, which provide guidance on a wide range of acquisition procedures; and,
- Providing OPS managers with internal OPS Standard Operating Procedures for actions that are not controlled by the Federal Acquisition Regulation, Department of Labor Acquisition Regulation (DOLAR), Department of Labor Manual Series, or other policy.

In addition, to ensure compliance with FAR and DMLS requirements, OASAM/OPS has updated its operating procedures and developed a checklist for all pre-award actions that are required to be completed prior to awarding contracts. The checklist, now a part of each contract file, is reviewed for completeness, appropriate pre-award items are affirmatively checked, and the checklist is signed by a supervisory contracting officer—prior to the execution of contract actions.

The OIG's review of a sample of ten FY 2005 procurement actions validated significant improvements from these actions in OPS. However, this review also found that OPS did not comply fully with a reporting requirement related to the special authorities utilized in some of the procurement actions. A listing of procurement awards currently is being produced, which will serve as the basis for the report. The report will be completed by the end of the first quarter of FY 2006.

Based on these substantial corrective measures and the absence of any compliance issues, we ask that OIG consider moving this finding and the corresponding recommendations to the report's "management advisory comments." We also request OIG consider closing this matter upon issuance of the OPS report to be completed by the end of the first quarter of FY 2006.

Auditors' Conclusion

While we concur with many of the actions taken by management, we remain unable to conclude whether or not OPS' revised operating procedures would produce fully documented compliance with applicable procurement requirements since the majority of procurement actions made in FY 2005 were subject to a one-time sole source process. In addition, management had not complied with the reporting requirements of the JOTFOC as of the end of our fieldwork. Accordingly, these recommendations remain **resolved and open** pending a positive outcome for procurement testing conducted in the FY 2006 audit.

Finding 10 - Managerial Cost Accounting System Not Fully Implemented

In the FY 2002 audit (Report No. 22-03-003-13-001), the OIG reported that DOL was not in compliance with the requirements for managerial cost accounting contained in SFFAS No. 4. Specifically, DOL had 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. Further, DOL did not adequately link cost information to performance measures at the operating program level for use in managing program operations on a routine basis or use managerial cost information for purposes of performance measurement, planning, budgeting or forecasting.

In the FY 2002 report, the OIG made the following recommendation:

Recommendation

We recommend that the Chief Financial Officer ensure the full implementation of the comprehensive Department-wide plan by January 28, 2006.

In response to this finding, management developed a comprehensive plan to implement a Department-wide MCA system that complies with the requirements of SFFAS No. 4. As of the end of FY 2004, cost models were developed for all major DOL agencies and their related programs, the MCA system was certified for processing, and the cost accounting software was installed throughout each of the program agencies.

During FY 2005 DOL focused on expanding and refining cost-model capabilities. Significant accomplishments included updating each of the models with FY 2004 data, and in some instances initiation of updates through the second quarter of FY 2005. An initial set of periodic cost reports to be used for program management and performance

assessment was developed for each cost model. During FY 2005, program managers also began to use cost-model information for budget formulation and justification, resource allocation, and determining “best practices” across similar programs and/or regions.

However, while the Department has made significant progress in implementing managerial cost-accounting capabilities, current cost information is not yet being widely used for decision making on a day-to-day basis. According to management, the Department’s focus during FY 2006 will shift to expanding the use of cost information by managers at all levels for decision making on a day-to-day basis. To this end the Department has identified quarterly milestones to demonstrate continued progress toward expanding the use of cost information. These milestones include:

- Automation of the cost model data collection and update processes;
- Quarterly update of data for all cost models;
- Continued enhancement and expansion of existing cost models and associated reports; and
- OCFO, OASAM/CPFR and agencies will work to map cost model outputs to performance goals.

Cost-model information will be used to help track efficiency measures. Agencies will develop metrics and targets focused on cost drivers for some key agencies/programs, and monitor data throughout the year to determine whether targets have been met.

Based on the progress made in implementing cost accounting systems throughout DOL, we conclude that DOL is substantially compliant with SFFAS No. 4, and accordingly, with FFMIA. Nevertheless, this recommendation is **resolved and open** pending verification in FY 2006 that the Department is able to demonstrate the widespread use of current, updated cost information for decision making on a day-to-day basis, as called for in its implementation plan.

Management’s Response

The OCFO concurs with the auditor.

Auditors’ Conclusion

Our audit conclusion remains unchanged.

Finding 11 - Errors Reported by States on ETA 2112 Not Corrected by ETA

On a monthly basis, states are required to submit form ETA 2112, UI Financial Transaction Summary Unemployment Fund, which provides a summary of transactions for the state unemployment fund. Form 2112 provides information on the state’s Clearing Account, Unemployment Trust Fund account, and Benefit Payment account.

Certain lines of the ETA 2112 report are added together to arrive at the benefit payments made by the state reporting entity. ETA has issued instructions on reporting the transactions in UI Reports Handbook No. 401. Information reported on the ETA 2112 is used by the OCFO to record UI activity in DOLAR\$.

Our audit of UI activity recorded in FY 2005 identified that the state reporting entities did not consistently report certain UI transactions, and that ETA did not effectively review the monthly reports in order to detect and correct these errors on a timely basis. As a result, the financial statements of the Department were misstated. Specifically, we found the following:

1. In July, 2004, one state reported a \$149 million withdrawal from its unemployment fund as a negative deposit, which effectively overstated the amount recorded in DOLAR\$ as UI benefit payment expense. As of the end of FY 2004, the state had repaid \$92 million of the withdrawal, which reduced the amount overstated to \$57 million. When an additional amount (\$43 million) was repaid in FY 2005, the current year UI benefit payment expense was understated. Additional information reported in the comments section of the ETA 2112 indicated that the funds withdrawn were invested outside of the Trust Fund. Section 3304 of the Social Security Act requires that all money withdrawn from the unemployment fund of the state be used solely in the payment of unemployment compensation, exclusive of expenses of administration.
2. Other states incorrectly reported deposits of \$122 million on the ETA 2112. The deposits were for Trade Readjustment Assistance (TRA) and North American Free Trade Agreement (NAFTA) funds, rather than UI activity, and should not have been reported as UI deposits. The effect of these deposits understated the amount recorded in DOLAR\$ as benefit payment expense.
3. One of the above states reported approximately \$29 million of NAFTA, TRA and FUBA deposits, and a corresponding withdrawal for approximately the same amount. While the amounts reported offset each other, NAFTA and TRA are not part of the Trust Fund and should not be commingled with Trust Fund activity.
4. In September 2004, one state reported a deposit of \$230 million. The deposit represented a private loan made by the state for purposes of paying the Title XII loan balance. The equity of the state was close to zero. The state incorrectly reported the loan proceeds as employer tax revenue, which overstated revenue for FY 2004. This activity was not employer taxes and should not have been recorded as revenue in the Trust Fund; rather, the transaction should have been reported as deposits from other sources, with a proper explanation that it was proceeds from a private loan. In FY 2005, the state withdrew funds from the Trust Fund to repay the loan, and reported the repayments in a manner that created a large advance balance in the general ledger. OCFO investigated the large advance balance and noticed that the loan proceeds were recorded

erroneously as employer taxes in FY 2004. However, the resulting correction was not recorded until July 2005. The same state obtained an additional \$39 million of private loan proceeds in October 2004, which was used to fund UI benefit payments, but was not reported or deposited into the Trust Fund. Since the payments were made outside of the Trust Fund accounts, the activity was off-ledger until corrections were made in July 2005.

5. The aggregate ending cash balance in the states' benefit payment accounts as reported on the ETA 2112 Report showed a \$900 million variance with the Accounts Payable and Advance balances recorded in DOLAR\$. The reports reflected an aggregate cash deficit, or a payable, whereas a net advance balance was recorded in DOLAR\$. Further analysis revealed that these differences were pervasive, with one state showing a difference of \$233 million. Additionally, we noted several states with advance or payable balances that either exceeded or represented a significant portion of the recorded annual benefit expense. One state with annual benefit payments of \$6 million shows a payable of \$16 million, which represents 272 percent of annual disbursements for that state. Another state with annual benefit payments of \$134 million shows an advance of \$70 million, 52 percent of annual disbursements. Research of this unusual trend revealed that benefit payment expense recorded in DOLAR\$ was understated by approximately \$222 million. Discrepancies noted suggest that management has been unable to effectively monitor excess cash activity of the reporting entities. Public Law 101-453 Section 6503 (1) provides that transfers of funds to the states under the program be scheduled so as to minimize the time elapsing between transfer of funds from the United States Treasury and issuance of checks, warrants or payments by other means by a state. As noted above, Section 3304 of the Social Security Act further requires that all money withdrawn from the unemployment fund of the state be used solely in the payment of unemployment compensation, exclusive of expenses of administration.

The improper reporting by numerous states indicates that ETA is not sufficiently monitoring information reported on the ETA 2112, and needs to provide the states with additional instructions or training on reporting financial activity to the Trust Fund. In addition, we found that ETA does not have sufficient procedures to detect and correct errors reported by the states on a timely basis. Existing procedures for reviewing ETA 2112 reports are informal, inconsistent, and do not include sufficient follow-up in cases where unusual activity is identified. Based on our review of the ETA 2112 reports, it is clear that the states are not consistent on what is reported under each line of the report. In fact, some states are reporting activity that is not part of the Trust Fund. According to ETA, the withdrawal of \$149 million was noticed by the accounting office; however, there was no follow-up on the unusual activity.

Recommendations

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

1. All UI reporting entities receive additional instruction and are notified as to the specific activity that should be reported on each line of the ETA 2112 report. Special instructions should be given on reporting proceeds from private loans deposited into the Trust Fund.

Management's Response

ET Handbook 401 serves as the vehicle by which the Office of Workforce Security (OWS) transmits reporting instructions to the states regarding all UI required reports. OWS will conduct a thorough review of existing reporting instructions and will issue revised instructions for the ETA 2112 incorporating clarifying information and addressing how proceeds from private loans deposited into the trust fund should be reported. This work will be completed by December 31, 2005.

Auditors' Conclusion

This recommendation is considered **resolved and open**. Closure is dependent upon OWS' issuance of revised instructions for completion of the ETA 2112 reports.

2. Procedures are developed and implemented for monthly reviews of ETA 2112 reports, for purposes of identifying unusual activity and recording potential corrections on a timely basis.

Management's Response

The OWS UI required reports (UIRR) system which permits states to submit reports electronically contain edit checks which can alert state staff of questionable entries or prevent state staff from submitting the report, depending on the severity of the edit. OWS proposes to review all existing edit checks and develop more stringent checks wherever possible. In addition, OWS will develop a program to compare the current monthly report to prior months' reports and identify any unusual activity. This work will be completed by December 31, 2005.

Auditors' Conclusion

This recommendation is considered **resolved and open**. Closure is dependent upon completion and implementation of the edit check review and analytical review process proposed by management, and upon evidence that these procedures have resulted in timely identification and correction of errors made by states in the ETA 2112 reporting process.

3. **ETA performs a reconciliation of the differences between the ETA 8401 or the ETA 2112 and the amounts recorded in the general ledger as of September 30, 2005. In addition, we recommend that the reconciliation be performed on a monthly basis starting with October 1, 2005. Differences noted must be corrected by the states on their ETA 2112 reports or by the OCFO, if the mistake is in the OCFO recording of activity.**

Management's Response

OWS will develop a process to reconcile the ETA 2112 benefit payment balance to ETA 8401 balance and the amounts recorded in the general ledger. We propose convening a meeting of OCFO and OWS staff to develop agreement regarding the methodology and data elements to reconcile in this process as currently no such understanding exists. Upon development of a reconciliation process, OWS will review fiscal year 2006 activity by month. This work will be completed by December 31, 2005.

Auditors' Conclusion

This recommendation is considered **resolved and open**. Closure is dependent upon development and implementation of the reconciliation process proposed by management, and upon evidence that the reconciliations have resulted in the timely identification and correction of errors made by states in the reporting process.

Finding 12 – Weaknesses Noted Over ESA Benefit Program Accounting

ESA's control procedures for the timely and accurately recording of transactions for FECA, Energy Employees Occupational Illness Compensation Program Act (EEOICPA), Longshore and Harbor Workers' Compensation Act (LHWCA), and District of Columbia Compensation Act (DCCA) need to be improved. OMB Circular A-127 requires agency financial systems to provide reliable and timely information. ESA's written procedures were not sufficiently detailed or comprehensive for a newly hired accountant to perform the duties for staff that left the organization. In FY 2005, these weaknesses jeopardized the timely issuance of the accountability report.

ESA's OMAP performs the accounting for ESA's benefit programs. These accounting procedures include entering transactions in the DOLAR\$ general ledger, reconciling accounts, and working with employing agencies to ensure receivables are paid. Many of these transactions are entered in DOLAR\$ as monthly summary journal entries from various subsidiary records. ESA's OWCP processes the benefit transactions that are the source of most of these entries. During FY 2005, we noted several instances when the accounting was not performed timely, completely, or accurately.

For example,

- Important July and August monthly journal entries were not recorded in the general ledger until mid-September.
- Important May monthly entries were not recorded in the general ledger until mid-July.
- Funds with Treasury and investment accounts in the general ledger were not adequately reconciled with third parties. These accounts had large unreconciled amounts at year end with Treasury's Financial Management Service (FMS) and Bureau of Public Debt.
- Significant activity in several accounts was not recorded or recorded incorrectly, or supporting documentation was not available.

In addition to these problems with recording DOLAR\$ transactions, ESA did not maintain its subsidiary system for tracking the balance of Intra-governmental Accounts Receivable for the FECA program. ESA's loss of key personnel resulted in only higher priority positions being staffed. Although the OCFO has maintained other receivable records, ESA was not following up with employing agencies or managing the receivable balances.

Without an adequate subsidiary system, ESA cannot properly manage its receivables or report on the employing agency balances accurately. ESA has acknowledged the need to manage and maintain the receivables and has begun discussing how to implement a system.

Additionally, ESA did not have a formal reconciliation process to reconcile its various benefit payment subsidiary systems (for FECA, EEOICPA, and Longshore/DCCA) with amounts reported on the SF-224s and FMS 6653s to the DOLAR\$ general ledger. Although the OCFO does perform reconciliations of the FMS 6653s to the DOLAR\$ general ledger, the reconciliation does not include the detailed payment history databases. Without a complete and formal reconciliation process, management cannot ensure that the payment histories reflect what was actually paid by Treasury. Because the payment histories serve as the official payment records of each individual case or claim, it is important that these are accurate with Treasury's records to ensure claimants are paid the proper amount.

OMB Circular A-127, *Financial Management Systems*, requires agency financial systems to provide reliable and timely information. The Circular defines information systems as the organized collection, processing, transmission, and dissemination of information in accordance with defined procedures, whether automated or manual.

These accounting and reconciliation problems arose because ESA did not have sufficiently detailed or written procedures to enable new staff to perform the required activities in an accurate and timely manner. These accounting and reconciliation problems became apparent with the significant employee turnover in OMAP. In the past

2 years, OMAP had turnover in three key accounting positions. ESA did not have sufficient transition/succession plans in place to be able to handle these staffing changes.

Without timely and accurate entries, current intragovernmental receivable tracking system, or timely reconciliations, the Department could not prepare accurate or complete financial information to be used by managers and other parties. This year, these weaknesses jeopardized the timely and accurate preparation of the Performance and Accountability Report.

Recommendations

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

- 1. Ensure that OMAP develops adequate detailed written procedures for all significant aspects of its accounting and financial management. These written procedures should be detailed and thorough enough so that an experienced accountant, with no prior connection to OWCP's benefit programs, can follow the procedures and correctly record the program's transactions.**

Management's Response

ESA agrees that we need to develop detailed written procedures for both OMAP and OWCP. These procedures will encompass all standard operating procedures for financial management in ESA. The procedures will be used for re-training and establishing accountability for existing staff, as well as an on-the-job manual for new employees in ESA financial management positions. Expected completion date is January 31, 2006.

In addition, OMAP will reinstitute its regional financial management accountability reviews to ensure that ESA offices nationwide are following established financial management procedures. Expected beginning date is July 1, 2006, and continuing on a quarterly basis throughout FY-2007 and the out-years.

Auditors' Conclusion

Based on the corrective action proposed, this finding is **resolved and open** pending review of the new written procedures and implementation of the accountability review process.

- 2. Ensure that OMAP implements a human resource transition/succession plan which includes a description of key positions and detailed written procedures for the duties assigned to the position. The plan should include a procedure**

for notifying the appropriate official when these key procedures are not being completed accurately or timely.

Management's Response

In FY 2005 OMAP experienced several unanticipated departures of key personnel in the Accounting Division, but has already begun to implement procedures to ensure the continuity of services in the future. Along with the Standard Operating Procedures, each position will have a definitive position description, and new standards requiring enhanced reconciliation and accountability procedures. The Standard Operating Procedures will have mechanisms in place to ensure that key procedures are followed accurately, and on a timely basis. Expected completion date is December 31, 2005.

Auditors' Conclusion

This recommendation is **unresolved**. While management has proposed having definitive position descriptions and Standard Operating Procedures, it does not adequately address the specific mechanisms to be used to ensure the procedures are followed and appropriate officials are notified timely.

- 3. Ensure that OMAP and OWCP develop and implement reconciliation procedures for the benefit payment histories and the SF-224, FMS 6653 and the DOLAR\$ general ledger.**

Management's Response

ESA will develop and implement reconciliation procedures beginning with the FECA benefit payment histories through SF-224 reporting and including review and updating of reconciliation procedures from the FECA system SF-224 reporting through the Treasury FMS 6653 and the DOLAR\$ General Ledger. OMAP and OWCP will work together along with the OCFO to ensure consistency across the reconciliation process. Expected completion date is January 31, 2006.

Auditors' Conclusion

Based on the proposed corrective action, this finding is **resolved and open** pending the development and implementation of reconciliation procedures for FECA, EEOICPA, and LHWCA/DCCA.

- 4. Ensure that OMAP maintains a current Intragovernmental Receivable subsidiary ledger and establishes written procedures for collecting the receivables. The subsidiary ledger should be maintained to track invoices, receipts, and adjustments that are readily traceable to source documentation and generate timely reports on employing agency receivable balances that are complete and accurate.**

Management's Response

ESA will maintain and control an Intragovernmental Receivable subsidiary ledger complete with written procedures to address the FECA chargeback process. These procedures will address the proper documentation, tracking and periodic reporting on the status of charge back receivables. ESA will work with the OCFO to ensure coordination and reconciliation of receipts. Expected completion date is March 31, 2006.

Auditors' Conclusion

Based on the corrective action proposed, this recommendation is **resolved and open** pending the development of a subsidiary ledger and related written accounting procedures.

Management Advisory Comments

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1. Unemployment Compensation Advisory Council Not Established

In the FY 1997 audit (OIG Report No. 12-98-002-13-001), the OIG reported 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 UCAC is responsible are significant to the UI program.

In the FY 1997 report, the OIG made the following recommendation:

Recommendation

We recommend 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.

ETA disagrees with this recommendation and is pursuing an appeal to the Deputy Secretary to resolve this finding. ETA informed us, in the President's FY 2006 Budget Request, DOL proposed amendments in the "Unemployment Compensation Program Integrity Act of 2005." These amendments would require the DOL Secretary to "periodically" establish an advisory council, whereas the existing requirement is that a council be convened every 4 years. According to ETA, the "Unemployment Compensation Program Integrity Act" was submitted to OMB for approval on March 14, 2005; OMB cleared the Act on June 1, and the Act was formally submitted to Congress June 14, 2005. However, the Act has not yet been approved.

Although changes to the current requirements have been proposed, ETA is still required to convene UCAC every four years. The proposed requirements would still require ETA to periodically convene the UCAC, which it has not done since at least FY 1997. The recommendation remains **unresolved** until such time that ETA complies with the legislative requirement.

Management's Response

Because Section 908 of the Social Security Act (SSA) entitles the members of the UCAC to compensation and expenses, ETA cannot convene the council without incurring significant costs. ETA was provided roughly \$2 million in Program Administration funds to support the UCAC from FY 1993 through FY 1995. The Congress has not provided funding to support subsequent councils, and ETA has received no inquiries or other expressions of interest from the Congress or other stakeholders about establishing new councils. Program Administration funds are scarce, and it would be imprudent for ETA to divert resources from other activities to support a new UCAC. In our view, the lack of funding in ETA appropriations for the

*UCAC expresses a congressional view, subsequent to the SSA provision cited by the
OIG, that no UCAC is required to be established.*

Auditors' Conclusion

Our conclusion regarding the UCAC is based on requirements set forth in existing legislation. This recommendation remains **unresolved** until such time that ETA complies with the legislative requirement. We note that management's conclusion that "no UCAC is required to be established" appears inconsistent with its attempts to have the legislation revised.

2. Social Security Wage Authorizations Not Consistently Received From FECA Claimants

In the FY 2003 audit report (OIG Report No. 22-04-002-13-001), we reported that controls were not effective in ensuring that Form SSA-581, *Authorization to Obtain Earnings Data From the Social Security Administration*, was sent to the claimant and proper follow-up performed on unreturned forms. We noted that the Office of Workers' Compensation Programs does not have automated procedures to ensure the timely request and receipt of this required claimant information. Therefore, the system relies upon the ad hoc tracking systems utilized by the individual CEs in each of the District offices.

In the FY 2003 report, we made the following recommendation:

Recommendation

We recommend that the Chief Financial Officer and the Assistant Secretary for Employment Standards develop an adequate system to ensure that Claims Examiners obtain and review SSA-581 forms as required by FECA program policy.

In FY 2004, we found similar results and reported this finding in our FY 2004 audit report. In response to our audit reports, management submitted a corrective action plan with timeframes for completion. DOL implemented a new automated benefit system, iFECS, in FY 2005. Management has indicated that iFECS includes a periodic entitlement review application that determines the presence or absence of the SSA-581 form in the file. This will then update the CE task and reminding lists through the WOW application. Supervisors will be able to sort the lists for overdue tasks. Management expected this function to be fully operational by September 30, 2005, but due to delays in the final implementation of iFECS, this has since changed to March 2006.

In our FY 2005 testing, we reviewed 105 cases, of which 73 cases required an SSA-581 to be obtained during the past year. Of these 73 cases, 9 cases did not have a properly

signed SSA-581 in the case file (12 percent). These results are consistent with the prior year's testing.

Therefore, this finding is **resolved and open**, pending the effective implementation of the improved functionality of the WOW application within the iFECS system, and a positive outcome of testing conducted during the FY 2006 audit.

Management's Response

Management will complete the implementation of the remaining functions within iFECS by March 2006 and perform a review to ensure that properly signed SSA-581 forms are on file where required.

Auditors' Conclusion

This finding remains **resolved and open** until the implementation of the WOW application in iFECS.

3. Monthly Medical Bill Sampling Not Sufficiently Performed by FECA District Offices

In the FY 2003 audit report (OIG Report No. 22-04-002-13-001), we reported that in the Philadelphia, Jacksonville, and San Francisco District offices, monthly medical bill sampling was not performed as required by OWCP procedures. In September 2003, OWCP began implementation of a new contractor-provided medical bill processing system. This centralized bill processing shifted the primary responsibility for monitoring the medical bill payments from the District offices to the National office.

An independent review of medical bills is an important internal control to ensure the accuracy, quality, and security of the bill processing operation. If the medical bill reviews are not performed, it increases the risk that management will fail to identify and correct errors and deficiencies in the medical bill processing on a timely basis. The risk that improper payments may be made is also increased.

In the FY 2003 audit report, we made the following recommendation:

Recommendation

The Chief Financial Officer and the Assistant Secretary for Employment Standards ensure that medical bills are reviewed on a timely basis at all District offices in accordance with FECA Bulletin No. 98-05 and that existing guidance is updated to reflect implementation of the Improper Payments Act in FY 2004.

In our FY 2004 audit report, we indicated that this finding was resolved and open based on our review of management's corrective action plan. In FY 2005, management

completed its written plan for the review of medical bills, and began executing some of the procedures, but had not fully implemented its plan.

This finding is **resolved and open**, pending the successful implementation of the audit plan and our review in the FY 2006 audit.

Management's Response

Division of Federal Employees Compensation (DFEC) district offices have begun auditing samples of medical bills with the focus on tightening procedures and will be fully implemented by December 31, 2005. Management will perform a review to ensure that all medial bills are being sampled in compliance with the plan.

Auditors' Conclusion

This finding remains **resolved and open** until the sampling has been effectively implemented and management has reviewed it for compliance with the plan.

4. Inadequate Validation of Unemployment Insurance Data Submitted by States

The FY 92 OIG audit report (OIG Report No. 03-93-034-03-315) disclosed that the UI reporting system does not include adequate data validation procedures. The workload validation program validated data entered by the states in UIS. However, each state only reviewed a small number of items in the data validation program, and the data validation occurs only for a one month period in the first quarter of the fiscal year.

In the FY 1992 report, the OIG made the following recommendations directly to the appropriate Assistant Secretary and requested that the CFO work with the Assistant Secretary to address these recommendations.

Recommendations

The Unemployment Insurance Service (UIS) should review validation methods for all other data elements contained on the Unemployment Insurance Required Reports.

UIS began the Unemployment Insurance Data Validation (UIDV) implementation process in FY 2003. ETA's Office of Workforce Security is requiring all states validate data used to support the UIS GPRA performance measures reported in the PAR. As of September 2005, management reported that states had validated about half of the data used to support these performance measures. ETA's OWS required all states to complete these validation efforts by May 10, 2006. UI data validation converted from a PC-based system to a Web-based system in the 3rd quarter of FY 2005. States that do not complete implementation by the May 10, 2006 deadline, or "fail" a validation, must address the deficiency in their next State Quality Service Plan. ETA does not know if all

states will be able to meet the implementation date because some states may find it necessary to delay implementation due to the effects of Hurricane Katrina, either because they were directly affected, or because they are picking up the workload for the states that were affected. This recommendation remains **resolved and open**. We will perform audit follow-up work after the UIDV program is fully implemented to evaluate whether this recommendation can be closed.

Management's Response

As noted above, states are required to validate the data used to support the UI GPRA performance measures. We will await the OIG follow-up work so that this finding can be closed.

Auditors' Conclusion

This recommendation remains **resolved and open**. Once validation reports have been received from all states, we will perform audit follow-up work to determine whether this recommendation can be closed.

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

The OWS disclosed that once UIDV is fully implemented, a determination will be made as to whether there are substantial benefits to conduct the validation on a full year's data. Management reported that UIS required all states to have completed validations by May 10, 2006. Once data validation is fully implemented, ETA will conduct a four-quarter review in several states to test the cost-effectiveness of an extended validation period. The four-quarter review of selected pilot states will commence at that time, and will be completed by June 2007. The recommendation remains **unresolved** until OWS completes the four quarter review to determine if the UIS can achieve substantial benefits from validating a full year of UI data.

Management's Response

As noted above, once UIDV is fully implemented, a determination will be made as to whether there are substantial benefits to conduct the validation on a full year's data. This should be completed by June 2007.

Auditors' Conclusion

Our recommendation for the development of a corrective action plan to address increasing the validation period beyond one quarter for quality and one month for quantity remains **unresolved**, pending the outcome of ETA's four-quarter review to test the cost-effectiveness of an extended validation period.

5. Lack of Written Policies and Procedures for the Longshore and Harbor Workers' Compensation Act Special Fund

In a memorandum dated April 13, 2004, the OIG issued a management advisory comment related to the Division of Longshore and Harbor Workers' Compensation (DLHWC), which administers the LHWCA special fund. The OIG found that the oversight, evaluation, monitoring, and control of DLHWC were informal and based primarily on institutional knowledge by experienced staff. Weaknesses were identified regarding the lack of readily available, up-to-date procedure manuals at the National office level.

The weaknesses noted create a high risk for discontinuity of major program operations should the office experience substantial staff turnover, and increase the possibility of improper or inconsistent accounting for transactions under various general ledger accounts.

In the April 2004 memorandum, the OIG made the following recommendation:

Recommendation

We recommend that the Director of the Division of Longshore and Harbor Workers' Compensation ensures that written operating manuals are prepared at the National Office level to document key operating areas, including: write off of transactions and adjustments for receivables, and the Fund Balance with Treasury reconciliation process relating to the SF 224 and the FMS 6652 report.

Management agreed with the OIG's recommendation and prepared written operating procedures which were completed by April 30, 2005. However, we noted that most of the information was copied directly from the Longshore Procedure Manual which lacks adequate information to enable an employee to reperform critical accounting functions. For example, the written operating procedures do not address procedures for the compilation, reconciliation and input of data into the general ledger. It also does not adequately address the process of calculating and billing annual assessments. Additionally, in FY 2005, the division began to experience the retirement of key staff whose knowledge of the program has played an important roll in maintaining program continuity. There continues to be a high risk of discontinuity of program operations in the absence of adequate written policies and procedures. This finding is **resolved and open** pending receipt and review of updated written procedures.

Management's Response

Longshore will prepare the missing written policies and procedures and have them ready for delivery by December 21, 2005.

Auditors' Conclusion

This finding remains **resolved and open** pending receipt and review of the written policies and procedures.

6. Inadequate Accountable Property Systems

In the FY 2001 Findings and Recommendations to the Chief Financial Officer (OIG Report No. 22-02-004-13-001), the OIG reported that the Department does not have adequate accountable property systems in place. Federal law (31 U.S.C. 3512 (c) (B)) 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." The OIG noted that several agencies did not have adequate written procedures and systems developed for identifying and tracking accountable property.

In the FY 2001 report, the OIG made the following recommendation:

Recommendation

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

As of FY 2005, this recommendation remains open only for ESA. In prior years, ESA was identified as not having an adequate system in place for tracking accountable property. In response to our recommendations, ESA has implemented the DOL E-Property system. ESA entered its accountable property into E-Property so it now can be tracked. However, ESA did not perform a physical inventory of accountable property to assure its property records are complete and up-to-date.

The recommendation remains **resolved and open** pending the completion of physical inventories for ESA accountable property.

Management's Response

ESA has very nearly completed initial eProperty input for each of its approximately 250 physical locations. As of October 2005, ESA has entered over 9,350 items into the DOL eProperty System. Within the next 60 days ESA will have an additional staff person on board with primary responsibility for property management and shortly after his/her arrival ESA will begin the process of conducting a physical inventory in accordance with

the policies and responsibilities outlined in the recently issued DLMS chapter on property management. ESA continues to discuss procedural matters with OASAM, such as the need for OASAM to procure barcode scanners and develop and disseminate training. The physical inventory will be completed by April 30, 2006.

Auditors' Conclusion

The recommendation remains **resolved and open** pending the completion of physical inventories for ESA accountable property.

7. Weaknesses in the DLHWC Rehabilitation Payment Process

The Boston District Office of the DLHWC did not properly review and maintain documentation that supported its payments. This occurred because the Boston District Office of the DLHWC had not established adequate written procedures that enforce the requirements to review, approve, and maintain documentation for each payment. OMB guidance requires agencies to design controls to ensure transactions are properly reviewed and documented. The lack of proper authorization and documentation increases the risk that inappropriate payments are made.

The District Offices are responsible for reviewing and processing claims for rehabilitation services. The Rehabilitation Specialist reviews and approves rehabilitation plans detailing the services to be provided, dates of services and the compensation for type of service. After the rehabilitation plan is approved, the Rehabilitation Specialist inputs the plan information into the Rehabilitation Bill Pay System and once entered, the total approved plan amount is available for service payments. Service providers send their invoices to the appropriate District Offices for processing.

Ninety-five percent (74 out of 78) of the payments tested at the Boston District Office did not have adequate review by the Rehabilitation Specialist. The invoices were not reviewed by the Rehabilitation Specialist to ensure the bills were in compliance with the approved rehabilitation plan. Additionally, 19 percent of the payments tested did not have a rehabilitation plan in the claimant file.

OMB Circular A-123, Management Accountability and Control, states that management controls:

. . . are the organization, policies, and procedures used by agencies to reasonably ensure that (i) programs achieve their intended results;[and,](ii) resources are used consistent with agency mission . . . management controls are the internal controls used to assure that there is prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets.

Appropriate review of invoices and retention of documentation used to support transactions are important controls used to ensure the prevention and detection of improper use of government resources.

The Boston District Office did not have appropriate written policies and procedures which incorporated adequate review, authorization, and retention of supporting documentation of the approval process. In response to our audit results, the Boston District Office revised its policies and procedures and submitted the revised policies and procedures to Headquarters for review. Headquarters is in the process of reviewing the Boston District Office policies and procedures and indicated that after the policies and procedures have been finalized, the DLHWC will distribute them to all the District Offices. The lack of written policies ensuring proper review of invoices and retention of supporting documentation increases the risk that improper payments could be made from the fund.

Recommendation

We recommend that the Assistant Secretary for Employment Standards direct the DLHWC issue and implement final policies and procedures for all the District Offices that address the approval of invoices and retention of supporting documentation. The written procedures should specifically address the review of invoices by the Rehabilitation Specialist and the retention of rehabilitation plans in claimant files.

Management's Response

Longshore will distribute a memo to each District Director restating the proper procedures for the authorization process for rehabilitation invoices in the district offices. The memo will advise each District Director to put written procedures in place by February 15, 2006 in each of their offices that provide for the proper approval and documentation of rehabilitation invoices. The memo will note that the procedures will cover the date stamping of invoices, the delivery of the invoices to the Rehabilitation Specialists, the review and annotation of each invoice by the Rehab Specialist, and finally the forwarding the approved invoices with accompanying reports of service to the Bill Payer for payment. It will also cover the indefinite retention policy for rehab plans, invoices, and reports of service. We will provide the auditors with a copy of the memo by November 30, 2005.

Auditors' Conclusion

This recommendation is **resolved and open** pending the effective implementation of the procedures outlined in management's response, and a positive outcome for testing conducted in the FY 2006 audit.

8. Internal Control Weaknesses Noted for Job Corps Real Property

In the FY 2004 DOL Audit (DOL Report No. 22-05-001-13-001), we reported that ETA did not perform adequate physical inventories of Job Corps' capitalized real property, and as a result, the property was not adequately safeguarded.

In the FY 2004 report, we made the following recommendations:

We recommend the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that an annual physical inventory of all Job Corps real property is performed, and the inventory results reconciled to CATARS and DOLAR\$.

In their prior year response, management concurred with the finding and recommendation. The ETA OFAS agreed to work with Job Corps to develop an efficient and cost-effective method of accomplishing these inventories at the centers. ETA management planned to issue revised inventory procedures and to complete the physical inventories by the end of FY 2005.

Our FY 2005 audit found that ETA finalized its National Accounting Policies and Procedures Manual. Section 4.5.2 requires annual physical inventories of real property in the fourth quarter of the fiscal year, and that discrepancies as a result of the inventory be investigated by the Accountable Property Officer (APO). Additionally, ETA prepared Real Property Physical Inventory Instructions. The instructions were distributed by e-mail and were issued separate from any ETA National Office accounting procedures. According to the instructions, Job Corps will provide to the inventory teams the center Real Property Inventory list and CIP Inventory list.

ETA informed us that the Real Property Inventory list used to conduct physical inventories at the Job Corps centers was not generated from CATARS because ETA had not yet completed the process of revising data into CATARS to correct the problem with vague descriptions (see recommendation on ensuring that sufficient descriptive details of all capitalized property items are obtained and corrected in CATARS). ETA initially said it expected the database to be completely entered into CATARS by the end of the fiscal year. We were later informed that the inventory work will carry into the beginning of FY 2006. Based on ETA's explanation on how the Real Property Inventory list was created, we concluded that it was adequate for interim purposes until it can be generated from CATARS.

Job Corps contractors McKissack & McKissack and PB Dewberry will perform the physical inventories using ETA instructions. ETA scheduled 99 Job Corps center inventories and management expects the inventory results, including corrections to CATARS, to be completed after the end of FY 2005. The physical inventory database will be entered into CATARS when inventory work is completed.

The recommendation is **resolved and open**. To close the recommendation, ETA needs to complete the physical inventories, reconcile inventory results to CATARS, and make appropriate adjustments to DOLAR\$.

Management's Response

The physical inventory was scheduled to be done by the contractors in conjunction with their normal quarterly visits to the centers. Operational considerations delayed the process, pushing it beyond the fiscal year-end for some centers. By year-end 44 center inventories had been completed, reconciled and changes entered into the CATARS system. By October 14, 2005, 31 more inventories had been accomplished. The remaining 24 inventories will be completed over the next 2 months.

Management has instituted a rigorous physical inventory process which has demonstrated management's control over the real property assets of the Job Corps Program. Although the process was not complete at year-end, the internal control issue has been addressed. None of the adjustments related to the inventory so far completed have been material, and no material adjustments are expected to be received in the remaining inventories. Management believes that this recommendation should be closed or moved to the Management Advisory Comments until the auditor can verify that the inventory is complete.

Auditors' Conclusion

We concur that the actions taken by management in FY 2005 have improved the safeguarding of Job Corps real property, and consider the remaining issues to be management advisory comments. The recommendation is **resolved and open**. To close the recommendation, ETA needs to complete the remaining physical inventories, reconcile inventory results to CATARS, and make appropriate adjustments to DOLAR\$.

9. Inadequate Capitalized Asset Property Management

In the FY 2001 Findings and Recommendations to the Chief Financial Officer (OIG Report No. 22-02-004-13-001), the OIG reported that procedures were inadequate to ensure that disposals of capitalized assets were reported in a timely manner.

In the FY 2001 report, the OIG made the following recommendations:

Recommendations

We recommend that the Chief Financial Officer and the Assistant Secretary for 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 (c) (B)). When an asset is disposed of, a DL-1-55C disposal form is required to be completed by the Accountable Property Officer (APO) and submitted to the Capitalized Asset Management Officer (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.).

ETA

During prior audits, ETA stated it would implement a quarterly physical inventory by the APO's, or their respective designates, to ensure that accountable personal property identified for disposition is done so pursuant with these procedures. Electronic notification was sent to the APO about the requirement to furnish the DL-1-55C Disposal Forms for changes to their accountable property inventory. ETA will continue to follow up with the APOs or their designees to obtain the disposal forms.

During our FY 2005 audit, ETA informed us that quarterly physical inventories were not performed. Our initial review of CATARS did not find any record of asset disposals. Without quarterly physical inventories and DL-1-55Cs, we were not able to determine if ETA recorded capitalized asset disposals timely, and properly researched the reasons for disposal. Therefore, both the recommendations, as they pertain to ETA, are **unresolved**. ETA needs to begin to take corrective action. In FY 2003, ETA stated it would begin to perform quarterly physical inventories. However, ETA did not perform these inventories in FY 2004 or FY 2005 and did not prepare DL-155Cs' for disposals. This recommendation will remain **unresolved** until disposals are recorded timely and processed according to DLMS requirements.

Management's Response

The capitalized personal property for ETA addressed in this finding consists of 53 items with a gross cost of \$6,835,985 and a book value of \$2,281,211. Most of the book value remaining consists of LAN equipment, telephone equipment, copiers and teleconferencing equipment.

Management recognizes its responsibility to ensure that these assets are not misappropriated and will implement controls to 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 or donated.*
- *Accountable Property Officers and Property Management Officers follow procedures specified in the DLMS for determining liability for lost/missing, stolen, or damaged property.*
- *Inventories are performed on a quarterly basis or at other intervals as determined appropriate by management, and*
- *Disposal forms are prepared and recorded on a timely basis.*

Specifically, we will (1) identify procedural difficulties and devise strategies/changes needed to improve controls, (2) issue a memorandum to responsible Program/Office directors, Accountable Property Officers (APOs) and Capitalized Asset Management Officers (CAMOs) on physical control, disposal documentation and procedures, (3) ensure DL-1-55C forms are completed and submitted timely to CAMOs for entry into CATARS, and (4) institute adequate physical inventories, including detailed procedures and post inventory reconciliation to CATARS. This will be completed by January 31, 2006.

Management believes that this recommendation should be moved to the Management Advisory Comments.

Auditors' Conclusion

We concur with the actions proposed by management and consider these recommendations **resolved and open**. Closure is dependent upon implementation of the controls proposed by management, and a positive outcome of audit testing conducted in the FY 2006 audit. Specifically, audit tests will assess whether or not ETA adheres to relevant DLMS procedures, including the determination of liability for lost/missing, stolen, or damaged property; periodic physical inventories; and timely preparation and recording of property disposal forms.

OCFO Working Capital Fund (WCF)

In prior years, the OCFO stated that the Division of Working Capital Fund Financing (DWCF) will reconcile on a monthly basis the CATARS to the DOLAR\$ for WCF assets to ensure the proper recording and reporting of capital assets. In addition, regular contacts will be initiated with APOs and CAMOs to reiterate the regulatory requirements to account for capital assets. OCFO also stated that it would place an emphasis on assets removed from service, as well as the subsequent accounting transactions.

Our review of CATARS disposals as of June 30, 2005, found that OCFO did not report any capitalized asset disposals. Therefore, we were not able to determine if OCFO is

recording capitalized asset disposals timely and properly researching the reasons for disposal. As a result, both recommendations, as they pertain to OCFO, remain **resolved and open**. The closure of the recommendations depends on the OCFO to provide OIG evidence to verify that disposals are being recorded timely and processed according to DLMS requirements.

Management's Response

The OCFO agrees with the recommendations. We have determined that WCF agencies were in fact completing the DOL-1-55C disposal forms on a timely basis but did not provide a copy of the form to the CAMO for entry into CATARS until the physical inventory was completed. The OCFO will clarify the procedures for asset disposals by January 31, 2006 and institute reviews to ensure that these procedures are being followed.

Auditors' Conclusion

The recommendation for the OCFO remains **resolved and open** and will be closed when the OCFO clarifies procedures for asset disposals and institutes reviews to ensure that the procedures are followed.

Appendices

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APPENDIX A

ACRONYMS AND ABBREVIATIONS

| | |
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| A&E | Architecture and Engineering |
| ADP | Automatic Data Processing |
| APO | Accountable Property Officer |
| BAM | Benefit Accuracy Measurement |
| BPC | Benefit Payment Control |
| CAMO | Capitalized Asset Management Officer |
| CATARS | Capitalized Asset Tracking and Reporting System |
| CE | Claims Examiner |
| CFO | Chief Financial Officer |
| CFOA | Chief Financial Officers Act |
| CIO | Chief Information Officer |
| CIP | Construction in Progress |
| CY | Calendar Year |
| DBFS | Division of Budget and Facilities Support |
| DCAA | District of Columbia Compensation Act |
| DFEC | Division of Federal Employees Compensation |
| DLHWC | Division of Longshore and Harbor Workers' Compensation |
| DLMS | Department of Labor Manual Series |
| DOL | U. S. Department of Labor |
| DOLAR\$ | Department of Labor Accounting and Related Systems |
| DWCFF | Division of Working Capital Fund Financing |
| EEOICPA | Energy Employees Occupational Illness Compensation Program Act |
| ESA | Employment Standards Administration |
| ETA | Employment and Training Administration |
| ETO | Employment and Training Order |
| FAR | Federal Acquisition Regulations |
| FECA | Federal Employees Compensation Act |
| FFMIA | Federal Financial Management Improvement Act |
| FMS | Financial Management Service |
| FY | Fiscal Year |
| GAAP | Generally Accepted Accounting Principles |
| GAO | Government Accountability Office |
| GPRA | Government Performance and Results Act |
| iFECS | Integrated Federal Employees Compensation System |
| IT | Information Technology |
| LHWCA | Longshore and Harbor Workers' Compensation Act |
| JFMIP | Joint Financial Management Improvement Program |
| JOTFOC | Justification for Other than Full and Open Competition |
| MCA | Managerial Cost Accounting |
| NAFTA | North American Free Trade Agreement |
| OASAM | Office of the Assistant Secretary for Administration and Management |
| OCFO | Office of the Chief Financial Officer |

Acronyms and Abbreviations (continued)

| | |
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| OCIO | Office of the Chief Information Officer |
| OFAS | Office of Financial and Administrative Services |
| OIG | Office of Inspector General |
| OMAP | Office of Management, Administration and Planning |
| OMB | Office of Management and Budget |
| OPS | Office of Procurement Services |
| OWCP | Office of Workers' Compensation Programs |
| OWS | Office of Workforce Security |
| PER | Periodic Entitlement Review |
| PRB | Procurement Review Board |
| SFFAS | Statement of Federal Financial Accounting Standards |
| TRA | Trade Readjustment Assistance |
| UCAC | Unemployment Compensation Advisory Council |
| UI | Unemployment Insurance |
| UIDV | Unemployment Insurance Data Validation |
| UIS | Unemployment Insurance Service |
| WCF | Working Capital Fund |
| WOW | Workload Organization Window |