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Office of Inspector General—Office of Audit

EMPLOYMENT AND TRAINING
ADMINISTRATION



ETA Can Improve Oversight of States' UI Administrative Costs

Date Issued: September 19, 2012
Report Number: 04-12-002-03-315

**U.S. Department of Labor
Office of Inspector General
Office of Audit**

BRIEFLY...

Highlights of Report Number 04-12-002-03-315, issued to the Assistant Secretary for Employment and Training.

WHY READ THE REPORT

The Office of Inspector General (OIG) conducted a performance audit of the Employment and Training Administration's (ETA) controls and processes over Unemployment Insurance (UI) administrative costs in the States of Florida and Maine. While the UI program is based on federal law, it is administered by the states under state law. ETA is responsible for setting broad policy for the program, monitoring states' performance, and ensuring compliance with federal and state laws. To ensure compliance, ETA performs quarterly desk reviews of states' UI administrative activities and conducts what it refers to as comprehensive reviews of state workforce agencies' (SWA) administrative systems at least once every three years.

WHY OIG CONDUCTED THE AUDIT

The audit objective was to answer the following question:

Did ETA have adequate controls to ensure States' UI administrative costs complied with OMB A-87 requirements?

To accomplish our audit, we conducted fieldwork at SWAs in Florida and Maine.

READ THE FULL REPORT

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

<http://www.oig.dol.gov/public/reports/oa/2012/04-12-002-03-315.pdf>.

September 19, 2012

ETA CAN IMPROVE OVERSIGHT OF STATES' UI ADMINISTRATIVE COSTS

WHAT OIG FOUND

The OIG found that neither Maine nor Florida was consistent in its compliance with Office of Management and Budget Circular A-87. For example, we questioned \$550,179 in the State of Maine because it spent \$342,745 on items such as travel and professional fees without adequate support, and charged \$207,434 in administrative costs to the incorrect UI administrative grants. We also questioned \$40,982 in the State of Florida because it overcharged the UI administrative grant for postage fees that it had recorded improperly.

ETA's desk reviews were limited and statewide single audits, which ETA relied on, were not always sufficient for testing UI administrative transactions and providing adequate oversight.

While ETA conducted what it referred to as comprehensive reviews of both Florida's and Maine's administrative systems in 2009 and 2010, respectively, the reviews were generic to all grants and did not identify deficiencies similar to those found in this report.

WHAT OIG RECOMMENDED

The OIG recommended that the Assistant Secretary for Employment and Training: 1) recover \$550,179 from Maine and \$40,982 from Florida in questioned costs that are detailed in this report, and 2) develop and implement a program-specific monitoring guide that includes detailed transaction testing of state UI administrative costs as part of ETA's periodic comprehensive monitoring reviews.

While ETA raised some concerns about OIG's conclusions, it agreed with the recommendation to develop a UI program-specific monitoring guide to enhance existing monitoring procedures, and will determine if the questioned costs should be recovered.

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U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



September 19, 2012

Assistant Inspector General's Report

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The Office of Inspector General (OIG) conducted a performance audit of the Employment and Training Administration's (ETA) controls and processes over Unemployment Insurance (UI) administrative costs. While the UI program is based on federal law, it is administered by the states under state law. Although each state designs its UI program within the framework of federal requirements, ETA is responsible for setting broad policy for the program, monitoring states' performance, and ensuring compliance with federal and state laws. To ensure compliance, ETA performs quarterly desk reviews of states' UI administrative activities and conducts what it refers to as comprehensive reviews of state workforce agencies' (SWA) administrative systems at least once every three years.

The audit objective was to answer the following question:

Did ETA have adequate controls to ensure States' UI administrative costs complied with OMB A-87 requirements?¹

To accomplish our audit, we conducted fieldwork at SWAs in Florida and Maine.² We selected a statistical sample of 645 cost transactions (459 in Florida, and 186 in Maine) and a non-statistical sample of cost transactions, and examined available supporting documentation to evaluate the adequacy of States' controls and processes over costs incurred using UI administrative funds. We also reviewed ETA's practices, policies, and procedures for ensuring compliance with federal and state laws. The audit covered the period October 1, 2009, to March 31, 2011.

As of March 2011, states had expended \$3 billion of the \$3.3 billion of Fiscal Year (FY) 2010 UI administrative grant awards. In addition, during this same period, approximately \$300 million UI administrative grant funds were awarded and expended under the

¹OMB A-87 requirements, as codified in Title 2, Code of Federal Regulations (2 CFR), Part 225, Cost Principles for State, Local, and Indian tribal Governments

²The Florida Department of Economic Opportunity (formerly the Agency for Workforce Innovation prior to October 1, 2011) and the Maine Department of Labor are the two SWAs where we conducted fieldwork.

American Recovery and Reinvestment Act (ARRA). As of March 2011, the State of Florida spent \$151 million of its \$200 million grant awards and the State of Maine spent the entire \$20 million of its UI grant awards.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Our objective, scope, methodology, and criteria are detailed in Appendix B.

RESULTS AND FINDINGS

Objective — Did ETA have adequate controls to ensure States' UI administrative costs complied with OMB A-87 requirements?

ETA can improve its controls to ensure States' UI administrative costs comply with OMB A-87 requirements. Neither Maine nor Florida was consistent in compliance with OMB A-87. For example, with Maine we questioned \$550,179 because the State spent \$342,745 on items such as travel and professional fees without adequate support, and charged \$207,434 in administrative costs to the incorrect UI administrative grants — expenses incurred during FY 2009 were charged to FY 2010 grant funds. Based on a 95 percent confidence level, we estimated that \$435,069 of Maine's \$6,371,222 in FY 2010 administrative costs were not charged to the proper UI grant. Regarding Florida, we questioned \$40,982 because the State overcharged the UI administrative grant for postage fees that it had recorded improperly.

ETA's desk reviews were limited, and statewide single audits, which ETA relied on, were not always sufficient for testing UI administrative transactions and providing adequate oversight. While ETA conducted what it referred to as comprehensive reviews of both Florida's and Maine's administrative systems in 2009 and 2010 respectively, the reviews were generic to all grants and did not identify deficiencies similar to those found in this report. In ETA's 2005 Core Monitoring Guide, ETA indicated that it did not have a program-specific guide to test UI administrative transactions and that it planned to develop such a program-specific guide. However, as of the end of our fieldwork, ETA had not developed this guide.

The States' UI administrative costs were not always allowable because they were (1) not adequately supported, (2) not accounted for properly, and (3) not charged to the proper UI grant. Consequently, we questioned costs for Maine and Florida totaling \$591,161. If ETA's controls had been adequate, Maine officials would not have improperly charged \$207,434 of prior-year administrative costs to the FY 2010 UI grant, and we estimated that a total of \$435,069 could have been put to better use in the State.

Maine could not support \$342,745 in administrative costs.

Maine could not support or properly account for \$342,745 in administrative costs from our non-statistical sample of cost transactions. Specifically, we found the following:

- \$276,016 for a duplicate transaction entry transferring payroll expenses from FY 2009 to FY 2010.
- \$60,660 for unsupported expenses related to travel and professional service fees.
- \$4,396 for payroll expenses related to the Workforce Investment Act program that was erroneously included in UI payroll expenses.³
- \$1,673 for an adjusting entry error.⁴

Maine improperly charged \$207,434 of prior-year administrative costs to the FY 2010 UI grant.

Maine improperly charged \$207,434 in UI administrative costs to the FY 2010 grant that had been incurred in FY 2009. Specifically, 11 of the 136⁵ transactions in our samples were improperly charged. As an example, one \$71,449 invoice for legal services had a July 27, 2009, date of service, but the transaction was charged to Maine's financial system March 16, 2010. We questioned the full amount of \$207,434 because these UI administrative costs were not related to the FY 2010 grant.

According to Maine's FY 2010 UI administrative grant – No. UI -19586-10-55-A-23:

UI Administration -- These funds are available for obligation by the Grantee (State) beginning October 1, 2009, through December 31, 2010, unless an extension is otherwise approved.

In addition, OMB A-87 requires that costs must conform to any limitations or exclusions set forth in these principles, federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items.

³An erroneous allocated payroll expense of \$4,396 for Labor Market Information System, One-Stop Grant (Code L215) was included in the Unemployment Insurance (Code U210) allocated payroll expense.

⁴\$1,673 represents the difference between an adjusting entry that was entered in the system as \$50,954 instead of the supportable amount of \$49,281.

⁵Our original combined universe comprised Other Operational Costs, Administrative Staff and Technical (AS&T) and Non-Personal Service (NPS) transactions. However, because we did not find any exceptions in our universe of Other Operational Costs, we excluded them from the summary of our projections. As a result, the number of sampled transactions changed from 186 to 136 and the related gross dollar value changed from \$23,356,927 to \$6,371,222, which only included transactions greater than \$300.

Our sample of 136 transactions from a universe of 1,231 revealed 11 transactions totaling \$207,434 were improperly charged to the FY 2010 UI grant. Based on a 95 percent confidence level, we estimated that, for the period between October 1, 2009, and March 31, 2011, 37 transactions totaling \$435,069, from the universe of transactions were not charged to the proper UI grant. These funds could have been put to better use in providing allowable goods and services. See Exhibit 1 for Attributes for Projections.

By not providing adequate documentation, properly accounting for costs, or charging costs to the correct grant, Maine was not always in compliance with OMB A-87 requirements. As result, we questioned \$550,179 related to these issues. See Exhibit 2 for Schedule of Questioned Costs.

Florida could not support \$40,982 in administrative costs.

Florida overcharged the UI administrative grant \$40,982 for postage fees because it did not properly record amounts on two invoices from Pitney Bowes, one of its contractors. Florida officials agreed that input errors occurred on the invoice payments and that they would prepare correcting entries. The table below illustrates the incorrect amount recorded for postage fees.

| Pitney Bowes' Invoices for Postage Fees | | | |
|--|-----------------------|-------------------------|-------------------|
| Invoice No. | Correct Amount | Incorrect Amount | Difference |
| 16406865 | \$1,013,210 | \$1,051,397 | \$38,187 |
| 115460413 | \$1,158,410 | \$1,161,205 | \$2,795 |
| Total | | | \$40,982 |

Florida officials did not comply with OMB A-87 requirements because the total amount of postage costs was not supported. We questioned \$40,982 related to these expenses.

ETA's quarterly desk reviews of the States' UI administrative activities were limited and generally only verified the accuracy and reasonableness of reported data. ETA also relied on statewide single audits but these may not have always tested UI administrative transactions sufficiently. ETA staff conducted what they described as comprehensive monitoring reviews of Maine in 2009 and Florida in 2010, but reported no issues regarding either State's use of UI administrative funds. Our review of the 2005 Core Monitoring Guide that ETA used in these monitoring reviews found it was not program specific. Rather, it was generic to all ETA grants and was intended to examine basic core activities in order to determine the readiness and capacity of the grantee to operate the grant. In fact, in this guide ETA indicated it did not have a program-specific guide to test UI administrative transactions and that it planned to develop such a program-specific guide. However, as of the end of field work, ETA had not developed it. Therefore, using the 2005 Core Monitoring Guide to conduct monitoring reviews would

not enable ETA to determine whether administrative funds were used in accordance with OMB A-87 requirements.

ETA concurred that some additional program-specific monitoring is desirable. However, ETA submitted that the report did not adequately reflect ETA's vigorous commitment to the integrity of the UI Program, and the strong grant management process in place to identify and provide assistance to states with fiscal integrity issues.

As we previously pointed out, ETA suggested its oversight efforts could be strengthened by developing a program-specific guide to supplement its Core Monitoring Guide, which it found to be generic to all ETA grants. Since our audit was limited to Florida and Maine, our audit results may not be reflective of all results of UI oversight for all states' use of administrative funds. However, the issues we identified require program-level solutions and in light of our consideration of ETA's oversight efforts of UI Administrative costs, we believe the report accurately reflects our audit results.

ETA's response is included in its entirety in Appendix D.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Employment and Training:

1. Recover \$550,179 from Maine and \$40,982 from Florida in questioned costs that are detailed in this report.
2. Develop and implement a program-specific monitoring guide that includes detailed transaction testing of state UI administrative costs as part of ETA's periodic comprehensive monitoring reviews.

We appreciate the cooperation and courtesies that ETA and the States of Florida and Maine personnel extended to the Office of Inspector General during this audit. OIG personnel who made major contributions to this report are listed in Appendix E.



Elliot P. Lewis
Assistant Inspector General
for Audit

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Exhibits

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Exhibit 1

Attributes for Projections

| Attributes for Projections | Maine | | |
|--|-----------------------------|---|---------------------------------|
| | Non-Personal Services (NPS) | Administrative Staff and Technical (AS&T) | Total NPS and AS&T Transactions |
| Universe Size | 975 | 256 | 1,231 |
| Sample Size | 74 | 62 | 136 |
| Number of Transactions with Errors Identified in Sample | 4 | 7 | 11 |
| Point Estimate of Percentage of Transactions in Universe with Errors | 2.97% | 3.13% | |
| Point Estimate of Transactions with Errors | 29 | 8 | 37 |
| Projected Percent of Lower Limit Transactions in Universe | 0% | 1.89% | |
| Lower Limit Estimate of Transactions with Errors in Universe | 0 | 5 | 5 |
| Projected Percent of Upper Limit Transactions in Universe | 6.68% | 4.36% | |
| Upper Limit Estimate of Transactions with Errors in Universe | 65 | 11 | 76 |
| Point Estimate of Financial Impact | \$333,590 | \$101,479 | \$435,069 |
| Lower limit Estimate of Financial Impact | 0 | \$94,254 | \$94,254 |
| Upper limit Estimate of Financial Impact | \$711,920 | \$108,704 | \$820,624 |

Note: Maine's UI administrative expenditures totaled \$19,930,949. However, its gross UI Administrative grant expenditures for FY 2010 were \$23,356,927, including transactions greater than \$300. We did consider credits for selected transactions to ensure the net payment was correct. We established three separate universes from these costs: (1) NPS – \$5,667,389, (2) AS&T – \$703,833, and (3) Other Operational Costs – \$16,985,705. We excluded the "Other Operational Costs" universe from the summary of our projections because we did not have any exceptions from this universe. As a result, the revised total number of transactions related to our projections is 1,231 (975 NPS and 256 AS&T) and the related dollar amount is \$6,371,222 (\$5,667,389 NPS and \$703,833 AS&T).

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Exhibit 2

Schedule of Questioned Costs

| Maine's UI Questioned Costs - Not in the Proper Grant Period | | | | |
|---|----------------------|------------------------------------|---------------------------|--------------------------|
| Universe Category | Record/ID No. | Description of Transactions | Transaction Amount | Questioned Amount |
| AS&T | ALLOC201003DOHNPS | Allocated Cost (Other) | 45,200.24 | 10,887.77 |
| | 8110SH1147 | Allocated Payroll | 40,676.85 | 40,676.85 |
| | 10PVS0329N001IT | IT Costs | 24,396.59 | 24,396.59 |
| | ALLOC201003DOHPSPB | Allocated Payroll | 23,621.40 | 3,869.00 |
| | 10PVS0401N003IT | IT Costs | 18,228.62 | 2,401.20 |
| | FEDDOHTO02010B | Allocated Cost (Other) | 14,256.67 | 14,256.67 |
| | ALLOC201003DAPAC | Allocated Cost (Other) | 9,313.04 | 2,268.58 |
| | | | Sub-Total | \$98,756.66 |
| NPS | 10PVS0521N001AG | Legal Services | 110,385.77 | 26,292.20 |
| | 10PVS0316N001AG | Legal Services | 71,448.67 | 71,448.67 |
| | 10PVS0402N001IT | IT Costs | 10,566.59 | 10,566.59 |
| | 4432682 | Travel Costs | 369.51 | 369.51 |
| | | | Sub-Total | \$108,676.97 |
| Total Questioned Cost Amount | | | | \$207,433.63 |

| Maine's UI Questioned Costs - Not Adequately Supported | | | | |
|---|----------------------|------------------------------------|---------------------------|--------------------------|
| Universe Category | Record/ID No. | Description of Transactions | Transaction Amount | Questioned Amount |
| AS&T | FEDDOHTO02010A | Travel Cost | 14,281.24 | 660.00 |
| NPS | 11PVS1103N001TD | Professional Services Fees | 60,000.00 | 60,000.00 |
| Other Operational Costs | PAJVUIJAN06TOFEB1710 | Allocated Payroll | 424,818.89 | 4,395.93 |
| Other Operational Costs | 1002KR004 | Allocated Payroll | 389,308.75 | 276,016.12 |
| Other Operational Costs | 0510JMC022 | Allocated Payroll | 88,771.00 | 1,673.35 |
| Total Questioned Cost Amount | | | | \$342,745.40 |

Scheduled of Questioned Costs (Cont.)

| Florida's UI Questioned Costs – Not Adequately Supported or Unreasonable | | | | |
|---|----------------------|------------------------------------|---------------------------|--------------------------|
| Universe Category | Record/ID No. | Description of Transactions | Transaction Amount | Questioned Amount |
| NPS | 161874 | Postage Fees | 1,104,838.61 | 2,794.90 |
| | 1262137 | Postage Fees | 288,937.11 | 38,186.88 |
| Total Questioned Cost Amount | | | | \$40,981.78 |

Note: We questioned a total of \$591,161 for Maine and Florida. In Maine we noted issues in 16 of the 186 transactions tested and a total of \$550,179 was questioned. In Florida, we noted issues in at least 5 of the 459 statistically sampled transactions and a total of \$40,981.78 was questioned related to overcharged postage costs

Appendices

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Appendix A**Background**

The OIG conducted a performance audit of ETA controls and processes over States' UI Administrative costs. The UI program is based upon federal law, but it is administered by state employees under state law. Specifically, each state designs its UI program within the framework of the federal requirements.

The Federal Unemployment Tax Act funds are used to administer the UI programs in all states. To ensure funding amounts necessary for proper and efficient administration of the UI program, ETA provides annual formula workload-based grants to states in accordance with Section 302(a) of the Social Security Act. A base administrative grant is issued at the beginning of each fiscal year. States have up to 5 quarters to obligate these funds.

UI Administrative Funds are available for obligation beginning October 1 through December 31 of the following year (for example October 2010 – December 2011) unless an extension is approved. Without an approved extension, these funds must be expended and liquidated by March of the next year (for example, March 2012) unless they have been made available for UI automation acquisition which again allows them up to 3 years to spend the funds. ETA granted Florida's request to extend the period to liquidate its regular UI administrative funds to June 30, 2011. *Emergency Unemployment Compensation (EUC) and Federal Additional Compensation (FAC) Funds* are without fiscal year limitations. These funds may be expended as long as costs to administer the EUC and FAC programs are incurred within the federal appropriation law constraints.

According to ETA officials, all UI grantees have agreed to follow the cost principles currently codified at 2 CFR, Part 225 (OMB A-87). Furthermore, the administrative systems of all SWAs are monitored periodically onsite following ETA standard monitoring procedures and using the Core Monitoring Guide. ETA's regional offices are responsible for conducting what they refer to as comprehensive reviews of SWA administrative systems and their compliance with federal requirements, at least once every 3 years. ETA will require corrective action for all grants operated by the SWA with deficiencies.

In 1987, DOL granted states bottom-line authority, which gave them greater flexibility over UI expenditures. However, ETA and states still had a shared responsibility for monitoring the UI program within each state. States are required to report administrative expenditures quarterly on ETA Form 9130, Financial Status Report.

As of March 2011, states spent a total of \$3 billion of the \$3.3 billion in UI Administrative grant awards in FY 2010.⁶ In addition, approximately \$300 million was awarded and spent under ARRA for EUC and FAC administrative costs. As of March 2011, the State

⁶October 1, 2009 through September 30, 2010 plus an additional quarter to obligate all funds except those allocated for UI automation enhancements- which states have up to 3 years to spend.

of Florida spent \$151 million of the \$200 million of its grant awards; and the State of Maine spent the entire \$20 million awards.⁷ See Table 1 and Table 2⁸ for more details of Florida and Maine FY 2010 UI administrative grant awards and expenditures.

Table 1

**State of Florida FY 2010 UI Administrative Funds
as of March 31, 2011**

| Grant Funds | Awards | Total Expenditures |
|-------------------------------------|----------------------|---------------------------|
| Regular UI (plus Extended Benefits) | \$136,984,063 | \$87,775,790 |
| EUC | 34,396,859 | 34,396,859 |
| FAC | 1,036,501 | 1,036,501 |
| ARRA/EUC | 25,283,072 | 25,283,072 |
| ARRA/FAC | 2,095,590 | 2,095,590 |
| TOTALS | \$199,796,085 | \$150,587,812 |

Note: As of March 31, 2011, the difference between the total awards and expenditures was \$49,208,273 (\$30,790,993 obligated and \$18,417,280 unobligated). As of June 30, 2011, Regular UI expenditures were \$107,882,155 – An increase of \$20,106,365.

Table 2

**State of Maine FY 2010 UI Administrative Funds
as of March 31, 2011**

| Grant Funds | Awards | Total Expenditures |
|-------------------------------------|---------------------|---------------------------|
| Regular UI (plus Extended Benefits) | \$16,131,202 | \$16,131,404 |
| EUC | 1,647,671 | 1,647,797 |
| FAC | 4,974 | 4,973 |
| ARRA/EUC | 1,132,900 | 1,132,900 |
| ARRA/FAC | 7,760 | 7,760 |
| REA SBR | 1,005,651 | 1,006,115 |
| TOTALS | \$19,930,158 | \$19,930,949 |

⁷The award and expenditure amounts were rounded to the nearest million dollar amount.

⁸The Maine expenditures, as supported by Advantage, were \$791 more than the awarded amounts. We did not consider this difference material.

Appendix B**Objective, Scope, Methodology, and Criteria**

Objective

The audit objective was to answer the following question:

Did ETA have adequate controls to ensure States' UI administrative costs complied with OMB A-87 requirements?

Scope

The audit covered UI administrative activities reported during October 1, 2009, to March 31, 2011, for the States of Florida and Maine. We selected a statistical sample of 645 cost transactions — 459 for Florida and 186 for Maine — and examined available supporting documentation to evaluate the adequacy of controls and processes over UI Administrative costs. We performed fieldwork at the SWAs in Florida and Maine; ETA's national office in Washington, DC; and its regional offices in Atlanta, GA; and Boston, MA.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Methodology

To accomplish our audit objective, we judgmentally selected the identified high-risk States of Florida and Maine to conduct our fieldwork. Florida was selected because its FY 2010 regular UI administrative fund obligations were the seventh highest in the nation (more than \$125 million) and its 2009 single audit report for the period ended June 30, 2009, contained a qualified opinion for the UI program and included findings related to inaccurate reporting and insufficient documentation to support reporting. Maine was selected because its FY 2011 base administrative funds allocation included the highest percentage (50 percent) of combined AS&T and NPS costs as a percentage of total administrative allocation cost. Nationally, the combined AS&T and NPS cost as a percentage of total administrative allocation cost was 32 percent. We identified ETA's written policies and procedures over State UI Administrative Funds, analyzed ETA's oversight responsibilities and its efforts to ensure states' accountability and compliance, and reviewed the most recent single audit report for Florida and Maine to identify performance and management issues and what corrective actions had been taken.

We developed a statistical sampling plan to test the cost transactions of the States of Florida and Maine for the period October 1, 2009, and March 31, 2011. We used both

attribute and variable sampling at a 95 percent confidence level to estimate the monetary impact of costs that did not meet OMB A-87 requirements. For the selected states, we divided administrative costs into three separate universes (AS&T, NPS, and Other Operational Costs). In the State of Florida, each universe was divided into two strata – (1) Cost pool and (2) Non-cost pool. We included transactions greater than \$300 from each universe. However, we considered any related credit for selected transactions to ensure net payments were correct. The universe for Florida included 71,573 transactions, totaling \$176,929,882; and the universe for Maine included 2,141 transactions, totaling \$23,356,927. We selected a statistical sample of 645 transactions for testing — 459 from Florida and 186 from Maine.

Where appropriate, our sample results were projected to their respective universes. While exceptions were found in our testing of transactions in Florida, we did not project our results to the universe because the number of exceptions was not deemed material relative to the projected error amount to the total costs in our population. For Maine, our projected sample results were deemed significant because costs were not charged to the correct grant period. However, we also selected a non-statistical sample of costs within those transactions to determine if costs were in compliance with other attributes associated with OMB A-87 requirements and found instances of unsupported costs and accounting errors. We made the decision to judgmentally test these other attributes due to the high volume of costs and because we did not find a significant number of issues other than the incorrect charging of FY 2009 transactions to the FY 2010 grant.

At the national level, to determine if ETA has written policies and procedures related to UI administrative costs, we:

- Evaluated policies and procedures;
- Met with ETA national and regional office officials to discuss policies and procedures related to the distribution of UI Administrative funds and the monitoring and oversight of SWAs' use of those distributed funds to determine the adequacy of their controls;
- Analyzed the Resource Justification Model (RJM) data — used for UI cost allocation funding — and support to determine its accuracy and reliability;
- Reviewed ETA's responsibility and efforts for ensuring states complied with OMB A-87 and other applicable laws and regulations related to UI Administrative costs; and
- Reviewed states' ETA 9130 reports to reconcile reported awards and expenditures.

Also, to determine if there were processes for establishing indirect cost rates/cost allocation plans for the SWAs, we:

- Reviewed the OASAM, Business Operations Center, Office of Acquisition Management Services, Division of Cost Determination (DCD) websites for policies and procedures related to DCD's role of approving indirect cost rates and cost allocation methodologies;
- Interviewed the Chief of DCD regarding the current status of all 53 SWAs' cost allocation plans and/or cost rates; and
- Reviewed documentation for a sample of SWAs' FY 2010 and FY 2011 cost allocation plans and summarized the important points.

For Maine and Florida, we:

- Obtained copies of their general ledgers and financial databases in order to reconcile the States' most recent submitted 9130 reports to determine if expenditures were properly reported and supported;
- Reviewed the most recent monitoring reports for each state and assessed their impact on this audit, determined whether the report contained corrective action plan(s) related to UI Administrative funds and the action taken;
- Reviewed the most recent single audit reports to determine whether the reports contained corrective action plan(s) related to UI Administrative funds and the impact on our reported findings;
- Examined work done by the State auditors to determine if it could be used to support our audit procedures;
- Analyzed the States' RJM data and support and determined their accuracy and reliability, and ensured the UI base-year data in the RJM included only actual costs and excluded the state's resources or ARRA funds before funds were allocated; and
- Reviewed States' written policies and procedures on its bottom-line authority and how UI administrative funds should be used, as well as ensured transaction costs were consistent with those policies and procedures.

In testing UI administrative costs to determine whether costs were allowable (e.g) allocable, reasonable, adequately supported, and based on an approved indirect cost rate or cost allocation plan (CAP), we:

- Reviewed indirect cost rates or CAP to determine how costs were applied based on the indirect cost rate agreement as well as determined that States properly obligated UI Administrative funds within the allowed time period, including those planned for UI automation upgrades;

- Reviewed Supplemental Budget Requests' usage and ensured States abided by the purpose identified in each request, unless approved for other purposes; and
- Summarized work papers obtained through interviews and conducted transactions testing to determine whether ETA had controls in place and ensured UI Administrative costs complied with OMB A-87 requirements.

In planning and performing our audit, we considered whether internal controls significant to our audit objective were properly designed and placed in operation. This included the review of documentation to evaluate the adequacy of ETA controls for determining appropriateness of administrative costs and reporting accurate data and applicable policies and procedures as they related to administrative funds. We confirmed our understanding of these controls through interviews and review and analysis of documentation. We evaluated the adequacy of internal controls used by ETA for reasonable assurance that selected states were operating and reporting financial expenditures and results in compliance with federal regulations and guidance. We evaluated Florida and Maine controls for reasonable assurance that controls were in place over administrative costs, including appropriateness and allowability of costs. Our consideration of internal controls would not necessarily disclose all matters that might be significant deficiencies. Because of inherent limitations in internal controls, misstatements or noncompliance may nevertheless occur and not be detected.

To achieve the assignment's objective we relied on the computer-processed data contained in Florida's and Maine's respective Management Information Systems. We assessed the reliability of the data by (1) performing various testing of required data elements; (2) interviewing ETA and state officials knowledgeable about the data; and (3) reviewing Quarterly Performance Reports (QPR) data, and controls for preparing the QPRs. Based on these tests and assessments, we concluded the data was sufficiently reliable to use in meeting the audit objective.

Criteria

- OMB A-87, Costs Principles for State and Local and Indian Tribal Governments (as codified at 2 CFR, Part 225)
- The American Recovery and Reinvestment Act of 2009
- FY 2010 UI Administrative Grants - Florida and Maine

Appendix C

Acronyms and Abbreviations

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|------|--|
| ARRA | American Recovery and Reinvestment Act |
| AS&T | Administrative Staff and Technical |
| CAP | Cost Allocation Plan |
| CFR | Code of Federal Regulations |
| DCD | Division of Cost Determination |
| DOL | Department of Labor |
| ETA | Employment and Training Administration |
| EUC | Emergency Unemployment Compensation |
| FAC | Federal Additional Compensation |
| FY | Fiscal Year |
| NPS | Non-personal Service |
| QPR | Quarterly Performance Report |
| RJM | Resource Justification Model |
| SBR | Supplemental Budget Request |
| SWA | State Workforce Agency |
| OMB | Office of Management and Budget |
| OIG | Office of Inspector General |
| UI | Unemployment Insurance |

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ETA's Response to Draft Report

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D.C. 20210

SEP 10 2012

MEMORANDUM FOR: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

FROM: JANE OATES *Jane Oates*
Assistant Secretary
Employment and Training Administration

SUBJECT: Audit of ETA Oversight of UI Administrative Funds
Draft Audit Report No. 04-12-002-03-315

Thank you for the opportunity to comment on your final draft report on the Employment and Training Administration's (ETA) oversight of unemployment insurance (UI) administrative funds. We appreciate that the Office of the Inspector General (OIG) has incorporated some of ETA's previously suggested changes in the current draft of the report, but remain concerned that the report does not provide a balanced and accurate description of ETA's oversight and control activities, particularly in view of the fact that the report focuses on improper charges representing less than 1% of total expenditures in two states that the report acknowledges were high-risk states. Consequently, we submit that the report does not adequately reflect ETA's vigorous commitment to the integrity of the UI program, and the strong grant management processes in place to identify and provide assistance to states with fiscal integrity issues. In addition, we suggest it is appropriate to recognize the limited breadth of the report by adding at the end of the second paragraph on page 1 of the report: "We realize our field work only looked at two states we assessed to be high risk and that the improper charges discovered represent less than 1% of total UI administrative expenditures for the period audited. Therefore, the data this analysis presents may not be reflective of all results of UI oversight for all states' use of administrative funds."

While ETA faces some capacity challenges as we work to ensure that state financial transactions adhere to the principles of OMB Circular A-87, ETA has deployed all available resources to ensure that thorough UI program audits are conducted on a regular basis. Those audits have been proven to be effective at identifying improper payment charges. In addition, Regional Offices conduct rigorous desk reviews and statewide single audits for every grantee. Those desk reviews and audits enable ETA to identify states that are most at risk in order to maximize the use of ETA's resources for monitoring. The Regional Offices do not solely rely upon desk reviews and/or statewide single audits in lieu of on-site compliance reviews, but also review financial reports for anomalies and follow-up on issues uncovered during reviews and audits as part of routine discussions with state staff.

OIG suggests that ETA's on-site review of state financial processes is flawed because it encompasses more than one program. We note that the great majority of state UI grantees are in

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the same office that administers other ETA programs, and many fiscal controls and processes are uniform across programs. Therefore, monitoring cross-program fiscal controls is a valid approach that maximizes the efficient deployment of ETA's resources for grant oversight.

We concur with OIG however, that some additional program specific monitoring is desirable. Therefore, we concur with the recommendation to develop a UI program specific monitoring guide to enhance existing monitoring procedures in the Core Guide and Financial Supplement. ETA will develop these new UI specific monitoring procedures using a cross-functional workgroup comprised of Program Office, Grant Office and Regional Office staff.

As recommended, ETA will also determine if the questioned costs for Maine and Florida cited in the report should be recovered.

Also, attached are technical comments that were previously provided, but which were not addressed in the report.

Thank you again for the opportunity to provide these comments.

Attachment

ATTACHMENT

Technical Comments

- We cannot replicate the point estimates of 2.97% of Non-Personnel Service (NPS) transactions with errors and 3.13% of Administrative Staff and Technical (AS&T) transactions with errors. Also it is not clear how the estimated number of transactions with errors in the universe or how the estimated amounts in error (financial impact) were calculated. We recommend including an appendix showing all the calculations and the information supporting all the calculations
- Footnote 5 on page 3 explains that the IG omitted “Other Operational Costs” because no exceptions were found. This approach definitely skews the states’ performance and affects any weighted rate estimates thereby unnecessarily painting a more negative picture.
- An explanation should be provided as to why the average amounts of the questioned costs are so much higher than the average amounts of the financial items they sampled. For example, in Exhibit 1, the NPS universe size is given as 975, and the footnote states that the NPS universe included \$5,667,389. This is an average of \$5,813 per item. However, the OIG identified 4 transactions with errors totaling \$108,676.97 (Exhibit 2), an average of \$27,169.

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Appendix E

Acknowledgements

Key contributors to this report were Dwight Gates (Audit Manager), Mark Sanderson, (Auditor-in-Charge), Velma Ivey, Christy Marshall, Sharon Newby, Thomas Price, and Ajit Buttar.

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