

## 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.