

BRIEFLY...

Highlights of Report Number: 03-04-002-03-315, a report to the Assistant Secretary, Employment and Training Administration. July 23, 2004.

WHY READ THE REPORT

The Texas Workforce Commission (TWC) administers over 25 State and Federal workforce programs. Between September 1, 1999 and August 31, 2000, DOL grants accounted for 85 percent (\$198.5 million) of all TWC reported expenditures.

Like many state agencies, TWC charges such items as administrative, support and technical services as indirect costs that benefit multiple programs. TWC uses a methodology called Financial Cost Allocation Table (FCAT) to allocate indirect costs to those projects that use a particular service. While Office of Management and Budget (OMB) guidance (Circular A-87) allows states to bill Federal grants on the basis of estimated costs, they must adjust the charges to reflect actual costs at the end of the year. As state budgets shrink, the risk grows that Federal grant programs may be overcharged for indirect costs.

WHY OIG CONDUCTED THE AUDIT

As a result of a prior OIG audit on the State of Maryland, OIG contracted with auditors to perform a direct/indirect cost audit in 10 states, including Texas. The audit objective was to determine whether direct and indirect costs charged to DOL grant programs followed the Federal cost principles in OMB Circular A-87 and the terms of the grants. The audit covered the period between September 1, 1997 and August 31, 2001.

READ THE FULL REPORT

The full report is available at:

<http://www.oig.dol.gov/public/reports/oa/2004/03-04-002-03-315.pdf>

JULY 2004

DIRECT AND INDIRECT COSTS WERE IMPROPERLY CHARGED TO TEXAS DOL GRANTS

WHAT OIG FOUND

Our auditors found that TWC:

1. Did not adjust \$40.4 million in estimated FCAT (indirect) costs charged to DOL grants to actual costs, as OMB requires.
2. Charged over \$228 million in labor and fringe benefits to DOL grants on the basis of time reports that reflected estimates rather than actual time worked on a project.

WHAT OIG RECOMMENDED

We recommended that the Assistant Secretary for Employment Training:

- Direct TWC to implement controls and procedures to ensure that estimated costs charged to DOL grants are adjusted to actual costs at least annually. (Finding 1)
- Ensure that TWC monitor its new timekeeping system, intended to assure reporting of actual time worked, and conduct monthly audits of time charges reported by employees on more than 1 project. (Finding 2)
- Ensure that the cognizant DOL Grant Officer(s) adjust the:
 - a) FCAT costs charged to DOL based on actual costs and refund any overcharges to DOL (Finding 1); and
 - b) Direct labor costs and fringe benefits charged to DOL based on actual costs and refund any overcharges to DOL (Finding 2).

TWC officials agreed with our recommendations.