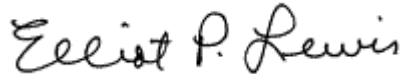


DATE : November 3, 2004

MEMORANDUM FOR: EMILY STOVER DeROCCO
Assistant Secretary for
Employment and Training



FROM: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

SUBJECT: Audit of North Carolina Employment Security Commission's
ADP/IT Central Services Costs Charges to U.S. DOL Grants
During the Period July 1, 1996 through June 30, 2000
Audit Report 03-05-003-03-315

The Office of Inspector General (OIG) has completed an audit of the automatic data processing and information technology (ADP/IT) central services costs charged to U.S. Department of Labor (USDOL) grants awarded to the North Carolina Employment Security Commission (ESC) for the period July 1, 1998, through June 30, 1999 (SFY 1999).

Based on the audit results, we found the State of North Carolina did not adjust estimated costs charged to USDOL programs to actual costs incurred for SFYs 1997 through 1999. Therefore, we recommend that USDOL, Employment and Training Administration (ETA) ensure the State provide actual cost information for those years and refund any amounts that were overcharged.

Background

North Carolina's ESC procures its computer mainframe ADP/IT central services from the North Carolina Office of Information Technology Services (OITS). OITS is a service bureau providing ADP/IT central services to all agencies and departments of the executive and legislative branches of the North Carolina State government. OITS uses a chargeback system to recover its operating costs. OITS prepares reconciliations between its budgeted and actual costs and refunds any over-billings to user agencies. During SFYs 1997 through 2000, OITS charged a total of \$16,543,864 for ADP/IT central services costs of which \$12,792,842 was charged to USDOL grants.

Objective, Scope, and Methodology

The audit objective was to determine whether such costs were reasonable, allowable, and properly allocable under the Federal cost principles set forth in OMB Circular A-87 for State Fiscal Years (SFYs) 1997 through 2000. Since the auditors found the State did not make the required adjustments for variances between billed and actual costs for SFY 1999, they expanded

the audit scope to include ADP/IT central services costs charged to all USDOL grant awards administered by ESC for SFYs 1997 through 2000.

The auditors interviewed officials from the North Carolina State Controller's Office, OITS, and ESC to determine the methodology used for allocating and charging OITS monthly billings to various benefiting cost objectives as required by OMB Circular A-87. They did not test the process OITS uses to accumulate the cost, allocate indirect cost, and bill programs. They interviewed OITS officials to determine how expenditures charged to the USDOL grant programs were recorded in the accounting system. The audit work included determining whether the State made the required adjustments to the USDOL grants for variances between billed costs and the actual allowable costs of providing ADP/IT services.

The audit was performed in accordance with standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States. The audit fieldwork for this engagement was conducted at ESC, OITS, and the Office of the State Controller in Raleigh, North Carolina.

Results

The State of North Carolina did not adjust costs charged to USDOL grant programs for SFYs 1997 through 1999 for differences between estimated costs and actual costs as required by OMB Circular A-87. Therefore, the State could not show how the total claimed costs charged to USDOL grant programs for SFYs 1997 through 1999 are reasonable, allowable, or properly allocable.

The review of the OITS Federal Financial Participation Refund and ESC's Financial Accounting and Reporting System transaction register found that DOL grants were properly credited for SFY 2000. However, no adjustments were made for SFYs 1997 through 1999. OITS officials said that the State passed legislation requiring OITS to maintain its billing rates in order to provide funding for Y2K contingencies. As a result, OITS officials interpreted the legislation as not allowing the issuance of any refunds to the user agencies for SFYs 1997 through 1999.

Recommendation

We recommend the USDOL Assistant Secretary for Employment and Training ensure the cognizant USDOL Grant Officer(s) adjust the ADP/IT central service costs charged to USDOL based on actual costs, and refund any overcharges to DOL for SFYs 1997 through 1999.

Auditee's Response

In the response to the draft report, ESC agreed OITS did not provide a refund as an adjustment between estimated and actual costs for SFYs 1997 through SFY 1999. After the draft report was issued, OITS provided documentation of its OMB Circular A-87 reconciliations. The reconciliations showed an excess of revenue over expenses for SFY 1998 (surplus), and an excess of expenses over revenue (loss) in SFYs 1997 and 1999. Overall there was a surplus of \$137,159 for costs charged to USDOL grants in SFY 1998. OITS proposed refunding this amount to ESC, or the USDOL, as a settlement of this issue.

See Attachment for the complete ESC response to the draft report.

OIG Conclusion

The recommendation will be resolved in USDOL's formal resolution process.

This subject final report is submitted for your resolution action. We request a response to this report within 60 days. It is your office's responsibility to transmit the attached report promptly to the program officials for resolution.

If you have any questions about this report, please contact Michael T. Hill, Regional Inspector General for Audit, in Philadelphia at (215) 446-3710.

Attachment

cc: Laura Patton Watson, Grant/Contracting Officer
Division of Resolution and Appeals Closeout Unit
Victor M. Lopez, Chief, Division of Cost Determination
Cheryl Atkinson, Administrator, Office of Workforce Security

ATTACHMENT

AUDITEE'S RESPONSE