

U.S. Department of Labor

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EMPLOYMENT AND TRAINING ADMINISTRATION



State of California
Direct Labor Costs Charged to
Employment and Training Grants

Date Issued: September 13, 2006
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**U.S. Department of Labor
Office of Inspector General
Office of Audit**

BRIEFLY...

Highlights of Report Number: **03-06-006-03-315**, a report to the Assistant Secretary, Employment and Training Administration (ETA).

WHY READ THE REPORT

The California Employment Development Department (EDD) employed 12,000 employees to administer workforce programs around the State. Between July 1, 2001, and June 30, 2002, EDD reported expenditures of about \$1 billion applicable to ETA programs. DOL grants are awarded primarily by ETA.

We found EDD used allocation codes based on previously determined percentages to charge direct cost for time spent by employees who worked on more than one benefiting program. However, EDD did not review and update the allocation codes quarterly to provide actual time spent on projects for SFYs 2001 and 2002. While the 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 direct costs.

WHY OIG CONDUCTED THE AUDIT

The OIG conducted a performance audit to determine whether direct and indirect costs charged to ETA grant programs followed the Federal cost principles in OMB Circular A-87 and the terms of the grants. The audit covered the period between July 1, 2000, and June 30, 2002.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency and EDD's response, go to

<http://www.oig.dol.gov/public/reports/oa/2006/03-06-006-03-315.pdf>

September 2006

State of California Direct Labor Costs Charged To Employment and Training Grants

WHAT OIG FOUND

The audit found that EDD could not support the basis for allocation of \$53.2 million of direct labor costs and \$23.5 million in associated costs.

WHAT OIG RECOMMENDED

We recommended that the Assistant Secretary for Employment Training:

1. Direct EDD to submit documentation to support the adjustment from estimated to actual costs concerning the \$53.2 million of direct labor costs and \$23.5 million in associated costs for SFYs 2001 and 2002. Based on the results of adjusting the estimated costs to actual costs, recover the amount of direct labor and associated costs that EDD overcharged the ETA grants, pursuant to OMB Circular A-87, Attachment E, paragraph F.5.
2. Direct EDD to submit documentation to support the adjustment from estimated to actual costs charged to ETA grants for SFYs 2003 through 2005, and recover the amount of direct labor and associated costs that EDD overcharged the ETA grants.
3. Direct EDD to submit for approval an allocation methodology for the costs that benefit more than one program or activity to assure its methodology for charging direct labor and associated costs to ETA grants fully complies with the allowability and allocability criteria mandated by OMB Circular A-87.

In its response to our draft report, EDD officials stated they completed the recommended corrective action. EDD officials also stated that adjustments of estimated costs to actual costs shows that ETA grants were undercharged by \$234,599 during the period July 1, 2000, through June 30, 2005.

The report recommendations will be resolved through ETA's formal audit resolution process.

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Executive Summary

We conducted a performance audit of \$462.7 million in direct labor costs charged to U.S. Department of Labor (DOL) Employment and Training Administration (ETA) grants awarded to the State of California Employment Development Department (EDD) for State Fiscal Years (SFYs) 2001 and 2002.

Objective

Were direct labor costs that EDD charged to ETA grants for SFYs 2001 and 2002 allowable and otherwise allocable under the Federal cost principles set forth in OMB Circular A-87?

Results and Finding

EDD Could Not Support the Basis for Allocation of \$53.2 Million of Direct Labor Costs and \$23.5 Million in Associated Costs

We audited \$462.7 million in direct labor costs that EDD charged to ETA grants for SFYs 2001 and 2002. We found that EDD could not support the basis for allocation of about \$76.7 million in costs claimed, including about \$53.2 million of direct labor costs and about \$23.5 million in associated costs,¹ because it allocated the costs on an estimated basis and did not adjust the estimated costs to actual costs. This occurred because EDD did not have adequate internal controls to ensure it complied with Federal cost principles. Nothing came to our attention to question the support for the remaining \$386 million of direct labor costs we audited.

EDD officials told us that: (1) they believe the amounts charged to Federal programs using allocation codes were reasonable and justified; (2) it is unreasonable to question all Federal costs for an organization whose work primarily benefits the Federal Government, simply because allocation codes were used; (3) the allocation codes were reviewed, and revised as necessary, as the related business process changed; and (4) as a result of the California State Auditor's Single Audit Reports, EDD took many positive steps to improve its allocation methodologies.

The use of predetermined percentages is permitted as long as they are supported, and if estimated, they are reviewed quarterly and adjusted to actual. EDD allocated direct labor costs on an estimated basis, but did not adjust the estimated costs to actual costs.

Costs that do not meet the Federal cost principles are unallowable and subject to recovery, as provided under OMB Circular A-87, Attachment E, paragraph F. 5 - "Costs specifically identified as unallowable and charged to Federal awards either directly or

¹ Associated costs consisted of: fringe benefits; non-personnel costs; and administrative, support and technical costs.

indirectly will be refunded.” We acknowledge actions taken by EDD as stated in its responses to the California State Auditor’s Single Audit Reports and documentation they provided to us during our audit work. However, these corrective actions did not address direct labor costs charged in SFYs 2001 and 2002. Our testing found that any action taken for these SFYs was not effective to correct the problem.

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

1. Direct EDD to submit documentation to support the adjustment from estimated to actual costs concerning the \$53.2 million of direct labor costs and \$23.5 million in associated costs for SFYs 2001 and 2002. Based on the results of adjusting the estimated costs to actual costs, recover the amount of direct labor and associated costs that EDD overcharged the ETA grants, pursuant to OMB Circular A-87, Attachment E, paragraph F.5.
2. Direct EDD to submit documentation to support the adjustment from estimated to actual costs charged to ETA grants for SFYs 2003 through 2005, and recover the amount of direct labor and associated costs that EDD overcharged the ETA grants.
3. Direct EDD to submit for approval an allocation methodology for the costs that benefit more than one program or activity to assure its methodology for charging direct labor and associated costs to ETA grants fully complies with the allowability and allocability criteria mandated by OMB Circular A-87.

Agency Response

In their response to our draft report, EDD officials stated they adjusted 5 years of sampled employee timesheet data from estimated to actual costs. The comparison of questioned labor costs to the recalculated labor costs showed a net undercharge of \$234,599 to ETA grants during the period July 1, 2000, through June 30, 2005. EDD officials also stated that effective July 1, 2005, EDD implemented the use of revised cost pools and allocation procedures that they documented in its Indirect Cost Rate Proposal. EDD officials stated they submitted the Indirect Cost Rate Proposal to the DOL Regional Cost Negotiator and are waiting for approval.

EDD’s response in its entirety is attached to this report as Appendix D.

OIG Conclusion

The report recommendations will be resolved through ETA’s formal audit resolution process.

U.S. Department of Labor

Office of Inspector General
Washington, DC 20210



Assistant Inspector General's Report

Ms. Emily Stover DeRocco
Assistant Secretary for
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U.S. Department of Labor
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The U.S. Department of Labor (DOL), Office of Inspector General (OIG), conducted an audit of direct labor costs charged to ETA grant awards by the State of California's Employment Development Department (EDD) for State Fiscal Years (SFYs) 2001 and 2002. The audit objective was to determine whether the \$462.7 million in direct labor costs that EDD charged to ETA grants for SFYs 2001 and 2002 were allowable and otherwise allocable under the Federal cost principles set forth in OMB Circular A-87.

We conducted the audit in accordance with Generally Accepted Government Auditing Standards for performance audits. Our audit objective, scope, methodology and criteria are detailed in Appendix B.

Results and Finding - EDD Could Not Support the Basis for Allocation of \$53.2 Million of Direct Labor Costs and \$23.5 Million in Associated Costs.

We audited \$462.7 million in direct labor costs that EDD charged to ETA grants for SFYs 2001 and 2002, and found that EDD could not support the basis for allocation of about \$76.7 million in costs claimed, including about \$53.2 million of direct labor costs and about \$23.5 million in associated costs,² because it allocated the costs on an estimated basis and did not adjust the estimated costs to actual costs. This occurred because EDD did not have adequate internal controls to ensure it complied with Federal cost principles. Nothing came to our attention to question the support for the remaining \$386 million of direct labor costs we audited.

Attachment A to OMB Circular A-87 provides specific principles to be applied in determining the allocability of costs.

² Associated costs consisted of: fringe benefits; non-personnel costs; and administrative, support and technical costs.

Attachment A, paragraph C.3.a. states:

A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

Attachment B to OMB Circular A-87 provides specific principles to be applied in determining the allowability of selected items of costs. These principles apply whether a cost is treated as direct or indirect.

Attachment B, paragraph 11.h(4) states:

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on (a) more than one Federal award, (b) a Federal award and a non-Federal award. . . .

Attachment B, paragraph 11.h(5)(e) states:

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

- (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
- (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
- (iii) the budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Attachment E, paragraph F. 5 to OMB Circular A-87 states: "Costs specifically identified as unallowable and charged to Federal awards either directly or indirectly will be refunded."

Based on interviews with EDD Branch officials, review of findings in the California State Auditor's Single Audit Reports (SARs) for SFYs 2001 and 2002, and testing of a statistical sample of 720 employees, we found that EDD charged direct labor costs and associated costs based on allocation codes that did not meet the Federal cost principles set forth in OMB Circular A-87, Appendix B, paragraph 11.h(5)(e). EDD used allocation codes based on previously determined percentages to charge time for employees who worked on more than one benefiting program, but EDD did not review and update the allocation codes quarterly to provide actual time spent on projects.

We also found that EDD did not have adequate documentation to support the allocation codes used for SFYs 2001 and 2002. For example, for the Information Technology (IT) Branch, the manager told us that there was no support available for the allocation codes used to charge salary costs to ETA grants. The manager also told us that the OMB Circular A-87 required quarterly reviews were not performed during SFY 2001 and prior years. The IT Branch Manager said that the Branch attempted to charge as much of its costs as possible directly to projects; however, the Branch had at least 28 allocation codes to charge costs to projects. The labor distribution percentages for these 28 allocation codes were estimated and based on funding sources and estimates of the future use of staff hours on the particular project for which costs were to be shared.

The problems with the allocation codes were reported by the California State Auditor in its Single Audit Reports for SFYs 1999, 2000 and 2001. The California State Auditor reported that EDD charged staff time spent on administering various Federal programs based on estimates rather than actual time worked. Additionally, they reported that EDD could not provide any data to support the allocation codes used to estimate the costs and could not produce evidence that it adjusted the percentages quarterly to reflect more current circumstances. Accordingly, the California State Auditor reported that EDD's time distribution system substantially failed to meet the requirements of OMB Circular A-87, Attachment B, Paragraph 11h.

To determine the effect of EDD not having a time distribution system that complied with Federal cost principles, we audited a random sample of 720 employees. We selected our sample from a universe of employees charged to ETA grants through use of labor allocation codes, i.e., labor costs being split between two or more projects with at least one being a ETA project. We eliminated the following from the original \$604 million universe of direct labor charges to ETA grants:

- 1) all cost centers where employees worked only on State-funded programs,
- 2) indirect cost centers, and
- 3) those cost centers where employees were charging their labor to only one project.

We also eliminated all employees who had no hours worked. This process enabled us to reduce the universe of 12,000 state employees to about 5,800 employees in SFY

2001, and 6,200 employees in SFY 2002 working in those cost centers making extensive use of allocation codes. These employees' direct labor charges totaled \$462.7 million, or about \$220.3 million and \$242.4 million allocated to various projects during SFYs 2001 and 2002, respectively.

We found that 127 employees, or 18 percent of our sample, used allocation codes based on predetermined percentages to allocate their time to ETA grants. See Exhibit A for details on which agencies were found to have used predetermined percentages. Based on our statistical projection of the sample results, we question \$76.7 million of labor costs and associated costs charged to ETA grants for SFY 2001 and 2002. See Exhibit B for details of our sampling plan and projections.

The following schedule table provides details of the questioned costs.

Description	2001	2002	Total
Total Labor Costs Charged to ETA	\$307,024,144	\$297,758,220	\$604,782,364
Statistical Projection of Unallowable Labor Costs Charged to ETA Grants	\$30,513,581	\$22,704,134	\$53,217,715
Statistical Projection of Other Costs Associated With Unallowable Labor:			
Personnel Benefits	\$ 6,716,026	\$5,639,726	\$12,355,752
Operating Exp. & Equipment	3,551,906	2,832,892	6,384,798
Admin. Support & Technical	<u>2,680,543</u>	<u>2,057,196</u>	<u>4,737,739</u>
Total Other Unallowable Costs	\$12,948,475	\$10,529,814	\$23,478,289
Total Statistical Projection of Unallowable Charges to ETA Grants	\$43,462,056	\$33,233,948	\$76,696,004

In April 2001, EDD developed and disbursed general guidelines for staff to follow when establishing and documenting allocation codes. According to EDD's response to the March 2002, California State Auditor's Single Audit Report for 2001, it had implemented a new allocation code process as of July 1, 2001. EDD further said they planned to fully implement the guidelines and develop documentation for all allocation codes during SFY 2002. However, based on our audit results, we concluded the guidelines and implementation of new allocations codes did not correct the problem.

We discussed the allocation code problem with managers in the Fiscal Programs Division of the Administration Branch, which was responsible for EDD's financial matters with state and Federal agencies and the overall accountability for EDD's funds. The managers told us they believed the requirement that estimated allocation codes be updated quarterly was overlooked until cited by the California State Auditors. They

believe that their current requirements on establishing and updating estimated allocation codes would correct the problem. Additionally, in its September 30, 2005, response to our preliminary findings and calculations of questioned costs, the Deputy Director for the Administration Branch stated:

- the amounts charged to Federal programs using allocations codes were reasonable and justified;
- it is unreasonable to question all Federal costs for an organization whose work primarily benefits the Federal Government, simply because allocation codes were used;
- the allocation codes were reviewed, and revised as necessary, as the related business process changed; and
- as a result of the California State Auditor's Single Audit Reports, EDD took many positive steps to improve its allocation methodologies.

Use of predetermined percentages is permitted by OMB Circular A-87 as long as they are supported, and if estimated, they are reviewed quarterly and adjusted to actual. EDD allocated direct labor costs on an estimated basis, but did not adjust the estimated costs to actual costs.

Costs that do not meet the Federal cost principles are unallowable and subject to recovery, as provided in OMB Circular A-87, Attachment E. paragraph F. 5 - "Costs specifically identified as unallowable and charged to Federal awards either directly or indirectly will be refunded." Finally, we acknowledge actions taken by EDD in response to the California State Auditor's Single Audit Reports and provided to us during our audit work. However, the corrective actions did not address direct labor costs charged in SFYs 2001 and 2002. Our testing found that any actions taken for these SFYs were not effective to correct the problem.

Recommendations:

We recommend that the Assistant Secretary for Employment and Training:

1. Direct EDD to submit documentation to support the adjustment from estimated to actual costs concerning the \$53.2 million of direct labor costs and \$23.5 million in associated costs for SFYs 2001 and 2002. Based on the results of adjusting the estimated costs to actual costs, recover the amount of direct labor and associated costs that EDD overcharged the ETA grants, pursuant to OMB Circular A-87, Attachment E, paragraph F.5.
2. Direct EDD to submit documentation to support the adjustment from estimated to actual costs charged to ETA grants for SFYs 2003 through 2005, and recover the

amount of direct labor and associated costs that EDD overcharged the ETA grants.

3. Direct EDD to submit for approval an allocation methodology for the costs that benefit more than one program or activity to assure its methodology for charging direct labor and associated costs to ETA grants fully complies with the allowability and allocability criteria mandated by OMB Circular A-87.

Agency Response

In response to our draft report, EDD officials responded that they completed determining the adjustment of estimated allocated costs to actual for SFYs 2001 and 2002. The adjustments showed that ETA grants were undercharged \$166,511. These adjustments reflect EDD's current cost pool methodology that was presented to the U.S. Department of Labor Regional Cost Negotiator for the SFY 2005-06.

For SFYs 2003 through 2005, EDD analyzed the time sheets for the same employees that OIG sampled for the audit. Based on this analysis, EDD officials projected that they undercharged ETA grants by \$68,088 for these SFYs.

Concerning submission of an allocation methodology to ensure compliance with acceptable Federal cost principles, EED officials stated they completed an Indirect Cost Rate Proposal (ICRP) for the period beginning July 1, 2005, that uses cost pools to allocate actual costs to shared programs in accordance with Federal cost principles. EDD submitted the ICRP for approval to the DOL Regional Cost Negotiator. The DOL Regional Cost Negotiator is currently reviewing the allocation methodologies in the ICRP.

OIG Conclusion

The report recommendations will be resolved through ETA's formal audit resolution process.



Elliot P. Lewis
October 12, 2005

Exhibits

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Exhibit A

Sample Results on Use of Allocation Codes by EDD

We found that 127 of 720 randomly selected employees used allocation codes that did not meet the Federal cost principles to allocate their time to ETA projects. The following table shows details by the EDD entity the 127 employees worked under:

Branch/Entity Type	Sampled Employees in Which Allocation Codes Did Not Meet Federal Cost Principles		Total Employees
	SFY 2001	SFY 2002	
Information Technology (IT) Branch	29	22	51
California UI Appeals Board (CUIAB)	29	33	62
Program Review Branch	2	2	4
Operations Branch	2	0	2
Administrative Branch	5	3	8
Total Employees	67	60	127

IT Branch

The IT Branch was responsible for department-wide automation planning, policy, application development, maintenance, support, operations, and oversight of automation systems.

Our review of five allocation codes disclosed that the IT Branch based the percentages on (1) estimates of the future use of staff hours on the particular project for which costs were to be shared, and (2) the funding percentages between ETA programs.

CUIAB

The CUIAB adjudicated disputes between appellants/petitioners and the EDD through an administrative hearing process in the areas of Unemployment Insurance (UI) and Disability Insurance (DI). They also heard tax issues concerning UI, DI, and Personal Income Tax withholding. The Appeals Board uses two levels of review. The field operations level was composed of the Chief Administrative Law Judges Office and eleven Regional Offices. They heard approximately 175,000 cases per year between employees and employers in various locations throughout the State. The Appeals Board level reviewed decisions rendered by field judges. The Board may affirm, reverse, modify, set aside or remand a field decision.

Our review disclosed that 62 of 127 (49 percent) randomly selected employees working for the CUIAB for SFYs 2001 and 2002 used allocation codes that did not meet Federal cost principles for the direct charging of labor costs to ETA grants.

Other EDD Branches

We found 14 of 127 employees (11 percent) from other EDD Branches (e.g. Program Review, Operations, and Administration) used allocation codes that did not meet Federal cost principles to direct charge their labor costs to ETA grants for SFYs 2001 and 2002.

EXHIBIT B

Sampling Plan, Data Review and Cost Projections

In order to determine the impact of EDD not having a time distribution system that complied with Federal cost principles on ETA grants, we reviewed data from EDD on the labor charges made to ETA grants during SFYs 2001 and 2002. The only overall labor costs data EDD had available were monthly reports by cost center after allocation codes were applied, showing employee name, social security, and labor costs by project codes (programs). The Fiscal Program Division manager provided the 24 monthly reports that included the entire EDD workforce, selected CUIAB and other State employees totaling about 12,000 employees.

Universe

For purposes of this test, we determined those employees charging ETA grants through use of labor allocation codes, i.e., labor costs being split between two or more projects with at least one being an ETA project. We eliminated the following from the original \$604 million universe of direct labor charges to ETA grants: (1) all cost centers where employees worked only on State funded programs, (2) indirect cost centers, and (3) those cost centers where employees were charging their labor to only one project. Further, we eliminated all employees who were listed but had no hours worked. This process enabled us to reduce the universe of 12,000 state employees to about 5,800 employees in SFY 2001 and 6,200 employees in SFY 2002. The direct labor charges for these employees totaled \$462.7 million, which consisted of \$220.3 million and \$242.4 million for SFYs 2001 and 2002, respectively.

Random Sampling Technique

We determined that our review needed to include all employees charging ETA grants through use of allocation codes for each of the 24 months. We selected a statistical sample of employees for testing to determine whether or not labor costs charged to ETA were in compliance with OMB Circular A-87. We determined the sample size using mathematical formulas for stratified attribute variable design, and using a 95 percent confidence level and +/- 5 percent sampling precision of the audit attributes. The 95 percent confidence level is an estimate of the degree of certainty that the population average will be within the precision level selected. It is also called the assurance level. For each SFY, the total sample was 360 employees, which we allocated to each month using a uniform sampling fraction. This resulted in a sample of 30 employees for each of the 24 months, for a total of 720 employees. We used random sampling techniques contained in IDEA software to select 30 employees from each of the 24 months. The direct labor costs for our sampled employees totaled approximately \$2.3 million.

Data Review and Evaluation of Labor and Associated Costs

Labor Costs

The purpose of reviewing the direct labor costs attributable to ETA projects for the 720 employees whose labor costs were split between projects was to determine whether the use of allocation codes was in accordance with the requirements of OMB Circular A-87, Attachment A. The Attachment requires that: (1) The allocation codes be based on the benefits received by each project; (2) the allocation codes be reviewed and updated quarterly; and (3) the allocation code process be adequately documented.

Accordingly, we tested and analyzed the following data for each employee in our sample:

- Employee name and payroll number
- Sample and cost center number
- Hours worked and labor dollars by project
- Employee time sheet and EDD labor report
- Allocation code establishment date
- Date(s) allocation code were last updated

Based on this process, we determined whether or not each cost allocation code applicable to the sampled employees met the above requirements of OMB Circular A-87. If the requirements were not met on a case-by-case basis, the applicable labor costs were considered to be questionable.

Associated Costs

To determine the questioned associated costs for the 127 employees who used the allocation codes that did not meet A-87 requirements, we identified personnel benefits, operating expense and equipment, and administrative support and technical costs. We obtained and reviewed EDD's cost accounting system manual and documentation to support EDD's methodology for allocating associated costs.

Personal Benefits (PB): EDD provided the PB rates of 22.01 percent for SFY 2001 and 24.84 percent for SFY 2002 and explained that PB costs were allocated based on the average benefit rate for all EDD employees. We computed the questioned associated PB costs by multiplying the questioned sample salary costs by the PB rates. We considered the reasonableness of the EDD provided PB rates for inclusion in our calculations.

Operating Expense and Equipment (OE&E) and Administrative Support and Technical (AS&T) Costs: EDD uses position equivalents as a basis to determine costs associated with OE&E and AS&T costs. We determined the total sample number of position equivalents by dividing the questioned sample employee hours into the standard 2,080 annual number of hours. These position equivalents were

divided into the total EDD position equivalents to obtain a percentage. This percentage was multiplied by the EDD annual OE&E pool and AS&T pool to obtain the questioned cost amounts associated with OE&E and AS&T costs for the 127 sampled employees for SFYs 2001 and 2002.

Projection of Questionable Labor and Associated Costs

We used the questioned salaries of the 127 employees and associated costs for PB, OE&E, and AS&T to project the questioned costs over the universe of EDD employees for SFYs 2001 and 2002.

We used the mathematical formulas for stratified sampling appraisal methodology on a case-by-case basis showing whether or not the labor and associated costs for the sample employees were allowable or unallowable. We determined the point estimates and its standard errors. We selected the lower point estimates for reporting purposes. The projections from this process are included in their entirety below.

Type of Projected Costs	SFY 2001	SFY 2002	Total Projected Questioned Costs
Salary & Wages	\$30,513,581	\$22,704,134	\$53,217,715
PB	\$6,716,026	\$5,639,726	\$12,355,752
OE&E	\$3,551,906	\$2,832,892	\$6,384,798
AS&T	\$2,680,543	\$2,057,196	\$4,737,739
Total	\$43,462,056	\$33,233,948	\$76,696,004

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Appendices

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APPENDIX A

BACKGROUND

EDD served the people of California by acting as an agent between employers and job seekers; paying benefits to eligible workers who become unemployed or disabled; collecting payroll taxes; helping disadvantaged persons become self-sufficient; gathering and sharing information on California's labor markets; administering the Workforce Investment Act program; and, ensuring that these activities are coordinated with other organizations that also provided employment, training, tax collection and benefit payment services.

EDD administered the Job Service (JS), Unemployment Insurance (UI), Disability Insurance (DI), Workforce Investment Act, and Welfare-to-Work programs. As California's largest tax collection agency, EDD also handled the collection of employment taxes and maintains employment records for more than 19 million workers. EDD had about 12,000 employees located at hundreds of service locations throughout the state providing many employment related services.

For SFYs ending June 30, 2001 and 2002, EDD reported that it incurred expenditures of about \$1 billion applicable to ETA programs. DOL grants are awarded primarily by ETA.

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APPENDIX B
OBJECTIVE, SCOPE, METHODOLOGY AND CRITERIA

Objective

Our objective was to determine whether the direct labor costs that EDD charged to ETA grants for SFYs 2001 and 2002 were allowable and otherwise allocable under the Federal cost principles set forth in OMB Circular A-87.

Scope and Methodology

The scope of our audit pertained solely to the direct labor costs charged to and reimbursed under ETA grant awards. We audited the \$462.7 million of labor costs charged to ETA grants during the SFYs 2001 and 2002. We did not perform an audit of EDD's total costs, the objective of which would have been the expression of an opinion on the total costs claimed by EDD, and, accordingly, we do not express such an opinion. We conducted the audit in accordance with Government Auditing Standards for performance audits.

As part of our preliminary audit work, we reviewed the California State Auditor's Single Audit Report for SFY 2001 and found it disclosed that EDD did not adjust their estimated time charges to actual. According to the report, EDD used dummy codes³ to allocate staff time charges to Federal and state cost centers based on actual workload analysis of actual performance. However, the documentation to support this assertion was unavailable. Based on this, we focused our audit on EDD's methodology for charging employee labor personal services costs for the SFYs ending June 30, 2001, and June 30, 2002, to ETA grant awards.

To achieve our audit objectives, we interviewed EDD officials to determine the methodology used for allocating and charging EDD monthly billings to various benefiting programs as required by OMB Circular A-87, Appendix B. We reviewed salaries and wage costs charged to Federal grants to determine if they were allowable and allocable to ETA programs.

To determine if the labor costs were allowable, we reviewed the salary and wage costs for a random sample of 720 employees to ensure that at least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports were made for SFYs 2001 and 2002. Specifically, we compared the hours charged on the timesheets to the hours, salary and wage costs reported on the EDD monthly 04A Personal Services Report to determine if adjustments from budgeted/estimated to actual costs were completed in accordance OMB Circular A-87, Attachment B requirements. We did not perform detailed testing of payroll calculations.

³ EDD's CAS Reports Training Manual defines dummy codes as 6-digit codes comprised of project codes plus activity codes. Dummy codes are used when an employee's time or a good or service was chargeable to one or more programs on a predictable basis.

To determine if the costs were properly allocated, we reviewed the EDD project allocation codes and percentages used to allocate an employee's time to several different projects. We reviewed the allocation codes to determine if the codes were being reviewed and updated quarterly to provide actual time spent on projects.

In addition, we reviewed a random sample of 720 employee timesheets and the allocation codes used to determine if salary and wage costs were charged to ETA grants based on "relative benefits received." Also, we reviewed the EDD cost accounting system to determine the methodology used to allocate PB, OE&E, and AS&T costs to State and Federal programs. We relied upon the PB rates, position equivalents, and OE&E/AS&T pools provided by EDD management to calculate the associated direct labor questioned costs. Although we did not test the information, nothing came to our attention to indicate the information provided was unreliable. If the data were erroneous, the amount of associated direct labor questioned costs could be affected.

We examined the processes used by EDD to recover direct labor costs to assure that only allowable costs were reimbursed. The objectives of this review pertained solely to the direct labor costs applicable to and reimbursed under ETA grant awards. We audited the \$462.7 million of labor costs charged to ETA grants during the SFYs 2001 and 2002. We did not perform an audit of EDD's total costs.

Due to the large number of employees involved, we used (1) random sampling techniques to select employees for review, and (2) statistical mathematical formulas to project the impact with a 95 percent level of confidence. Exhibit B contains a detailed presentation on the review methodology for the random sampling of employees, the data reviewed, and the projected unallowable costs.

We relied upon the work of the State's independent auditors regarding the reliability of the source of EDD's reported expenditures. We reviewed their independent audit reports for SFY 1999 through 2001, and found the State audits included examining, on a test basis, evidence of the State of California's compliance with the major requirements of laws, regulations, contracts, and grants applicable to its major Federal programs as required by OMB Circular A-133. A-133 required that the California State Auditor perform the audit to obtain reasonable assurance about whether noncompliance with the major requirements could have a direct and material effect on a major Federal program which includes ETA programs administered by EDD. In addition, we reconciled the DOL Standard Form 269 Financial Status Report to EDD detail expenditure reports to ensure that costs charged to DOL ETA programs were actually charged to DOL ETA grants.

In planning and performing our audit, we considered internal controls over direct labor costs charged to ETA grants by obtaining an understanding of EDD's internal controls, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of internal controls in order to determine our auditing procedures for the purpose of achieving our objective. Our consideration of the

program's internal controls would not necessarily disclose all matters that might be reportable conditions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

This audit was performed in accordance with Generally Accepted Government Auditing Standards for performance audits. The objective of our audit did not include expressing a formal written opinion on the reasonableness and allowability of the total claimed costs by EDD, its system of internal controls, or its compliance with laws and regulations applicable to all Federal grants/contracts. We performed procedures to rely on work of Independent Public Accountants (IPAs). Specifically, we monitored the IPAs' fieldwork, reviewed their audit workpapers, and performed supplemental tests. We also performed statistical projections of sample EDD employees determined to have estimated their labor costs charged to DOL ETA grant programs.

Initial audit fieldwork was performed at EDD offices in Sacramento, California, primarily during the period January 14, 2003, through March 11, 2003. An entrance conference was held on January 14, 2003, and an exit conference was held on March 11, 2003. However, following the exit conference, we performed a significant amount of analysis on the results of our sample which required contact with EDD officials via telephone, email, and regular mail through October 2005. EDD officials provided a written response to our preliminary findings and calculations of questioned costs in which they provided additional information that resulted in revisions to our sample results and questioned costs calculations.

Criteria

Workforce Investment Act (WIA). Section 18 of WIA, Formula Grant Program Annual Funding Agreement Assurances, requires States to comply with all applicable requirements of all other Federal laws, executive orders, regulations and policies governing this program. EDD's grant agreements require compliance with the Act which mandates compliance with the applicable OMB cost principles circulars.

Title 29 of the Code of Federal Regulations (CFR) part 97, Uniform Administrative Requirements for Grants and Cooperative Agreement. CFR part 97 contains a number of compliance requirements which must be met in order for costs to be allowable. Among other things, the costs must be in accordance with generally accepted accounting principles, and the grant accounting records must be supported by adequate source documentation such as canceled checks, paid bills, payroll records, time and attendance records, contract and subcontract award documents, etc.

OMB Circular A-87. OMB Circular A-87 provides the principles for payment of allowable, reasonable, and allocable incurred costs charged to Federal grants by state and local agencies. The following provides details from OMB Circular A-87 on the general principles for determining allowable costs.

General Principles for Determining Allowable Costs

Attachment A to OMB Circular A-87 establishes general principles for determining allowable direct costs incurred by state, local, and Indian tribal governments under grants, cost-reimbursement contracts, and other agreements with Federal agencies. The principles are established for the purpose of determining the reasonableness, allowability, and allocability of costs claimed, and are not intended to dictate the extent of Federal or contractor/grantee participation in the financing of a particular program or project. The principles are designed to ensure that the Federal Government bears its fair share of costs incurred, except where specifically restricted or prohibited by law.

Under OMB Circular A-87, Attachment A, costs charged to Federal programs must meet the tests of allowability, reasonableness, and allocability. To be **allowable**, costs must be: necessary and reasonable for proper and efficient performance and administration of Federal awards and allocable to Federal awards, and the allocation code process be adequately documented.

Costs may be considered **reasonable** if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of reasonableness is particularly important when governmental units or components are predominantly Federally funded.

Costs are considered **allocable** to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objectives in accordance with the “relative benefits received.”

Attachment B to OMB Circular A-87 provides specific principles to be applied in determining the allowability or unallowability of selected items of costs. These principles apply whether a cost is treated as direct or indirect.

ACRONYMS AND ABBREVIATIONS

EDD	Employment Development Department
CUIAB	California Unemployment Insurance Appeals Board
DI	Disability Insurance
DOL	U.S. Department of Labor
ETA	U.S. Department of Labor, Employment and Training Administration
ICRP	Indirect Cost Rate Proposal
IPA	Independent Public Accountant
IT	Information Technology Branch, EDD
JS	Job Service
OIG	U.S. Department of Labor, Office of Inspector General
OMB	U.S. Office of Management and Budget
SFY	State Fiscal Year – July 1 to June 30
UI	Unemployment Insurance

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AGENCY RESPONSE TO DRAFT REPORT



Arnold Schwarzenegger
Governor

September 1, 2006

Mr. Michael T. Hill
Regional Inspector General for Audit
Office of Inspector General
The Public Ledger Building, Suite 1072
150 S. Independence Mall West
Philadelphia, PA 19106

Dear Mr. Hill:

Please find enclosed the California Employment Development Department (EDD) response to the draft report from the U.S. Department of Labor, Office of Inspector General Audit of Direct Labor Costs Charged to Employment and Training Grants. The EDD appreciates the opportunity to review and address the report findings.

Enclosed are responses to the report findings. If you have any questions, or need additional information, please contact William Dougherty, Chief, Accounting Section, at (916) 654-7311.

Sincerely,

A handwritten signature in cursive script, appearing to read "Frank Collins".

Frank Collins
Deputy Director
Administration Branch

Enclosures

cc: William Dougherty, MIC 70
Hao Q. Lam, MIC 78



State of California
 Employment Development Department (EDD)
 Response to the Draft Audit Report of Direct Labor Costs Charged To
 Employment and Training Administration (ETA) Grants
 Awarded by the U.S. Department of Labor (DOL)
 July 1, 2000 to June 30, 2002

DOL Results and Findings: \$53.2 million of direct labor costs and \$23.5 million in associated costs were not allocated in accordance with Federal cost principles.

DOL audited \$462.7 million in direct labor costs that EDD charged to ETA grants for State Fiscal Years (SFYs) 2001 and 2002, and estimated that about \$53.2 million of direct labor costs and \$23.5 million in associated costs were not allocated in accordance with Federal cost principles. The DOL audit specified that EDD did not have support for the basis it used to allocate the direct labor costs. EDD allocated the costs on an estimated basis and did not adjust the estimated costs to actual costs. DOL found that 127 employees or 18 percent of its sample, used allocation codes based on predetermined percentages to allocate their time in ETA grants. Based on DOL's statistical projection of the sample results, an estimated \$76.7 million of labor costs and associated costs charged to ETA grants for SFYs 2001 and 2002 were questioned.

EDD Response: Since the initial occurrence in which allocations were questioned by a California audit agency, the EDD revised our allocation methodologies to ensure compliance with acceptable Federal cost principles as provided in OMB Circular A-87. The EDD completed an Indirect Cost Rate Proposal (ICRP) for the period beginning July 1, 2005 that uses cost pools to allocate actual costs to shared programs in accordance with Federal cost principles. These cost pools eliminated the need for 151 allocation codes that were questioned by DOL as estimated rather than actual costs.

Based on the Office of Inspector General (OIG) recommendations in the draft audit report, EDD reviewed the sampled 127 employees' allocated time that was the basis for the questioned costs and made necessary corrections on the allocation basis to adjust estimated costs to actual costs for the employees' time. The following summary recaps our recalculation of the questioned costs after the allocation base using historical or estimated cost estimates were adjusted to actual costs. These adjustments reflect our current cost pool methodology that was presented to our U.S. Department of Labor Regional Cost Negotiator for the SFY 2005-06.

	DOL Questioned Federal Amounts	EDD Adjustments to Actual Cost Amounts	Difference
FY 2000-01	\$43,462,056	\$42,207,797	-\$1,254,259
FY 2001-02	\$33,233,948	\$34,654,718	\$1,420,770
Total	<u>\$76,696,004</u>	<u>\$76,862,515</u>	<u>\$166,511</u>

- Amount over charged federal programs
 + amount under charged federal programs

Based on our analysis of the DOL questioned costs, after making the necessary adjustments of estimated costs to actual costs using acceptable Federal allocation standards, EDD appropriately charged the Federal programs and actually shows a slight undercharge of the DOL ETA grants by \$166,511 of the \$462.7 million total included in the audit period of SFYs 2001 and 2002. During this period EDD also expended state funds to support Federal programs. The amount of state supplemental funding was \$44.0 million in SFY 2001 and \$39.4 million in SFY 2002, for a total of \$83.4 million over the two-year period.

Per audit recommendation no. 1, documentation to support the adjustment from estimated to actual costs concerning the \$53.2 million of direct labor costs and \$23.5 million in associated costs for SFY 2001 and 2002 was submitted separately to the OIG auditors for review on August 28, 2006. Attachment I provides a summary recap of our analysis for the audit period as recommended by the OIG.

The following sections provide discussion of our analysis of the 127 sampled employees in which DOL stated the allocation codes did not meet Federal cost principles. The questioned Federal costs were compared to our recalculated labor costs for the specific cost pools as recommended by the OIG. The recalculated labor costs are allowable based on use of acceptable Federal allocation cost principles.

California Unemployment Insurance Appeals Board (CUIAB)

In SFY 2001 and 2002, the CUIAB labor costs were not allocated on an unsupported allocation code, but instead were allocated based on actual workload from the previous quarter. We computed what the actual costs would have been if we had utilized the workload for the actual month of the timesheet. The attachment provides the recalculation of costs for the 62 employees included in the DOL sample that represent labor costs associated with CUIAB. Based on the adjustment to the labor costs using actual month workload, the labor costs for the 62 employees for SFY 2001 decreases the Federal amount charged from \$115,170 to \$113,960 and increases the Federal amount charged for SFY 2002 from \$102,705 to \$104,740 for a net undercharge of \$825. As such, the CUIAB expenditures are allowable based on acceptable Federal allocation standards.

Information Technology (IT) Branch

The questioned IT costs may be grouped into the following five categories from the employees sampled by DOL:

IT Tax Branch Support

Some of the sampled IT Branch personnel performed work that solely benefited the tax programs, and this type of work is defined as Tax Branch support. The IT personnel that performed this work charged a code which split costs in accordance with the EDD tax sharing ratio approved by DOL.

The tax sharing ratio is an equitable distribution of costs to the benefiting programs in EDD and is included in our last approved ICRP. The IT Tax Branch Support labor costs of \$23,562 in SFY 2001 and \$9,900 in SFY 2002 are allowable based on acceptable Federal allocation standards.

IT Operations Branch Support

The sample included IT Branch personnel whose work benefited the Operations Branch, and this type of work was defined as IT Operations Branch support. During the audit period, the Operations Branch was comprised of Unemployment Insurance (UI) Division and Job Services (JS) Division (since the audit period, the two Divisions have split into separate Branches).

The IT personnel that performed this work charged a code that split costs to the benefiting programs, which were the UI and JS programs, and to State and reimbursable programs. Such an allocation is equitable when compared to Operations Branch benefiting programs. The labor costs of \$5,642 in SFY 2001 and \$1,370 in SFY 2002 are allowable based on acceptable Federal allocation standards.

IT Projects

Some of the sampled IT Branch personnel worked on specific IT projects. Feasibility Study Reports (FSRs) were completed for these projects that identified the benefiting program. The codes used were set up so that the charges would be directed to the benefiting programs. IT Branch personnel time records identified the specific projects. Examples include: TEAMFS, which captured the charges for the Tax Engineering and Modernization project that benefited the Tax Programs; and PIN100, which captured the charges for the Personal Identification Number project and benefited UI and Disability Insurance (DI) programs.

The specific IT project codes are an appropriate distribution of actual costs to the benefiting programs in EDD. Using this methodology, the labor costs of \$5,142 in SFY 2001 and \$240 in SFY 2002 is allowable based on acceptable Federal allocation standards.

IT Enterprise

EDD charges costs (personal services, personnel benefits, and non-personal service) to Administrative Staff and Technical (AS&T) to allow distribution of EDD's administrative overhead costs on an enterprise basis to all programs sharing in these costs. AS&T costs are allocated to all programs based on an enterprise percentage of monthly position equivalents (PEs) for each program that reflects the actual benefits to the charging program. The ratio of project code direct PEs to total PEs is calculated automatically by the Cost Accounting System (CAS) and the resulting percentage is used to allocate the total AS&T cost pool. This is allowable based on acceptable Federal allocation standards and deemed an appropriate distribution of enterprise costs.

Many of the sampled IT personnel performed work that benefited all EDD organizations and programs (e.g., IT policy or infrastructure). This type of work is defined as IT Enterprise. This cost pool follows the same methodology as the AS&T cost allocation. During the audit period, IT staff charged a code that allocated costs to five major EDD programs.

In the recently submitted ICRP for SFY 2005-06, the EDD defined an IT Enterprise Cost Pool to charge these expenditures to all benefiting programs. These costs are allocated to programs based on a statewide percentage of monthly PEs for each program. The ratio of project code direct PEs to total PEs is calculated automatically by the CAS each month. The resulting percentage is used to allocate the total IT Enterprise pool to the project codes.

The labor costs for IT Enterprise were recalculated based on the actual AS&T tables in effect during the audited time period. This resulted in an increase to the Federal program's share of the IT Enterprise costs. The labor costs in the amount of \$40,481 for SFY 2001 and \$32,920 in SFY 2002 were recalculated as recommended by the OIG and should be \$43,035 and \$37,520, respectively, as allowed costs using this acceptable Federal allocation standard. As such, Federal programs were undercharged by \$7,154.

IT Abstracts

The EDD agrees with the findings for these charges and the labor costs of \$3,620 in SFY 2001 should be disallowed.

Other Branches

Administration Branch – The sampled Administration Branch personnel included the following work functions:

- **Admin Mail** – The costs for Administrative Branch staff that worked in the mail facility were recalculated based on actual mail volume. The resulting charges were applied to the benefiting programs. The allocation used was equitable when compared to actual mail volume counts during the audit period (62% to UI, 26% to DI, 12% to overall departmental functions). The labor costs in the amount of \$5,052 for SFY 2001 and \$1,262 for SFY 2002 were recalculated and should be \$4,125 in SFY 2001 and \$1,570 in SFY 2002 and allowed as an acceptable Federal allocation standard. As such, Federal programs were overcharged by \$205.
- **Admin Forms** – The costs for Administration Branch staff that worked on the production of forms were recalculated based on the AS&T methodology. Forms are seldom associated with a particular program, but rather benefit the entire department. It is appropriate to charge these costs to all programs similar to AS&T methodology. The labor costs of \$3,258 for SFY 2001 and \$3,173 for SFY 2002 were recalculated and should be \$3,022 in SFY 2001 and \$3,204 in SFY 2002 and allowed as an

acceptable Federal allocation standard. As such, Federal programs were overcharged by \$619.

Program Review Branch – Staff in the Program Review Branch (PRB) carry out functions that benefit the entire department. It is appropriate for PRB staff to charge these costs to all programs and the actual code used by PRB staff charged distributed costs in a manner similar to an AS&T allocation. The recalculated PRB labor charges of \$7,619 in 2001 and \$5,180 in 2002 should be allowed as an acceptable Federal allocation standard. As such, Federal programs were undercharged \$5,709.

Miscellaneous – The EDD agrees with the findings for these charges and the labor costs of \$6,286 in SFY 2001 and \$2,369 in SFY 2002 should be disallowed.

Summary Response to DOL Audit Recommendations:

After making the adjustments of estimated costs to actual costs as recommended by the OIG and the clarification of our use of acceptable cost allocation pools to charge costs to all programs the questioned Federal costs are allowable. Based on these adjustments, the EDD internal control policies meet the accepted Federal allocation standards mandated by OMB Circular A-87.

EDD continued the analysis of sampled employees' timesheets for the subsequent year grants for SFYs 2003 through 2005 as recommended by the OIG. The DOL audit sample selected timesheets from 67 employees for SFY 2001 and 60 employees for SFY 2002 that used allocation codes that did not meet the Federal cost principles to allocate their time to ETA projects. EDD followed the 60 employees included in the latter sample to determine if their labor charges for the subsequent years continued to charge costs to an allocated code. There would have been a total of 180 employee records if the 60 employees continued to charge to the questioned allocation codes for the subsequent three year period. Of the original sample, 26 of the employee records were now identified as direct charging their labor costs during this period. An additional 13 employees representing 30 employee records were identified as having left the department. As such, the actual sample resulted in 124 employee records charged to the questioned allocation codes. During this period EDD also expended state funds to support Federal programs. The amount of state supplemental funding was \$37.9 million in SFY 2003, \$178.6 million in SFY 2004, and \$55.3 million for SFY 2005 for a total of \$271.8 million over the three-year period.

Per audit recommendation number 2, Attachment II provides our recap of adjustments of estimated costs to actual costs for this audit sample for the grant period. Based on the recalculation of the 124 employee records, EDD undercharged the DOL ETA grants by \$68,088 for the SFYs of 2003 through 2005. This audit sample would represent recalculation of an estimated \$61.2 million in questioned direct labor costs and \$33.6 million in associated costs based on the projection method of labor and associated costs used in the

two year audit sample included in Attachment I. The documentation of the detail analysis was submitted to the OIG auditors for their review on August 31, 2006.

Audit recommendation number 3 requested that EDD submit for approval an allocation methodology for the costs that benefit more than one program or activity to assure its methodology for charging direct labor and associated costs to ETA grants fully complies with the allowability and allocability criteria mandated by OMB Circular A-87. A copy of our allocation methodology was provided to the OIG auditors as requested on August 15, 2006. This allocation methodology is currently under review for approval by our U.S. DOL Regional Cost Negotiator.

In accordance with the OIG recommendations, EDD adjusted five years of sampled employee timesheet data from estimated to actual costs. The comparison of questioned labor costs to the recalculated labor costs showed no net overcharging of the ETA grants for this five year period. Effective July 1, 2005, EDD implemented the use of revised cost pools and allocation procedures that were documented in an updated ICRP. Implementation of these procedures complies with the required OMB Circular A-87 Federal cost principles.

Comparison of Questioned Federal Costs to Recalculated Federal Costs Attachment I

Sample Type	Employees		Questioned Federal Costs			Recalculated Federal Costs			Federal Cost Difference ¹		
	2000-01	2001-02	2000-01	2001-02	Total	2000-01	2001-02	Total	2000-01	2001-02	Total
	2000-01	2001-02	2000-01	2001-02	Total	2000-01	2001-02	Total	2000-01	2001-02	Total
CUIAB	29	33	\$115,170	\$102,705	\$217,875	\$113,960	\$104,740	\$218,700	-\$1,210	\$2,035	\$825
IT Tax Br	9	5	\$23,562	\$9,900	\$33,462	\$23,562	\$9,900	\$33,462	\$0	\$0	\$0
IT Operations Br	2	1	\$5,642	\$1,370	\$7,012	\$5,642	\$1,370	\$7,012	\$0	\$0	\$0
IT Projects	3	1	\$5,142	\$240	\$5,382	\$5,142	\$240	\$5,382	\$0	\$0	\$0
IT Enterprise	13	14	\$40,481	\$32,920	\$73,401	\$43,035	\$37,520	\$80,555	\$2,554	\$4,600	\$7,154
IT Abstracts	1	0	\$3,620	\$0	\$3,620	\$0	\$0	\$0	-\$3,620	\$0	-\$3,620
Admin Forms	2	2	\$3,258	\$3,173	\$6,431	\$3,022	\$3,204	\$6,226	-\$236	\$31	-\$205
Admin Mail	3	1	\$5,052	\$1,262	\$6,314	\$4,125	\$1,570	\$5,695	-\$927	\$308	-\$619
Prog Review Br	2	2	\$4,018	\$3,072	\$7,090	\$7,619	\$5,180	\$12,799	\$3,601	\$2,108	\$5,709
Misc (IT & Ops Br)	4	2	\$6,286	\$2,369	\$8,655	\$0	\$0	\$0	-\$6,286	-\$2,369	-\$8,655
Grand Total	68²	61²	\$212,231	\$157,011	\$369,242	\$206,107	\$163,724	\$369,831	-\$6,124	\$6,713	\$589

ESTIMATED PROJECTION OF LABOR AND ASSOCIATED COSTS

Type of Projected Costs	Questioned Federal Costs			Recalculated Federal Costs			Federal Cost Difference ¹		
	2000-01	2001-02	Total	2000-01	2001-02	Total	2000-01	2001-02	Total
	2000-01	2001-02	Total	2000-01	2001-02	Total	2000-01	2001-02	Total
Salary & Wages	\$30,513,581	\$22,704,134	\$53,217,715	\$29,634,064	\$23,674,490	\$53,308,554	-\$879,517	\$970,356	\$90,839
Personal Benefits	\$6,716,026	\$5,639,726	\$12,355,752	\$6,522,457	\$5,880,743	\$12,403,200	-\$193,569	\$241,017	\$47,448
Operating Expense & Equipment	\$3,551,906	\$2,832,892	\$6,384,798	\$3,449,405	\$2,954,576	\$6,403,981	-\$102,501	\$121,684	\$19,183
Administrative Support & Technical	\$2,680,543	\$2,057,196	\$4,737,739	\$2,601,871	\$2,144,909	\$4,746,780	-\$78,672	\$87,713	\$9,041
Grand Total	\$43,462,056	\$33,233,948	\$76,696,004	\$42,207,797	\$34,654,718	\$76,862,515	-\$1,254,259	\$1,420,770	\$166,511

ESTIMATED CALCULATION RATES TABLE

Type of Projected Costs	Calculation Method	
	2000-01	2001-02
Salary & Wages	143.78	144.60
Personal Benefits	22.01%	24.84%
Operating Expense & Equipment	11.64%	12.48%
Administrative Support & Technical	8.78%	9.06%

¹ A positive amount indicates that federal programs were undercharged. A negative amount indicates an overcharge.

² The audit sampled 127 employees. The employee total is 129 because OIG Employee #22 and #35 supported both IT Operations Branch and IT Projects.

Attachment II

Comparison of Questioned Federal Costs to Recalculated Federal Costs

Sample Type	Employees		Questioned Federal Costs		Recalculated Federal Costs		Federal Cost Difference ¹	
	2002-03	2003-04/2004-05	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05
CUIAB	28	25	\$102,899	\$107,932	\$104,426	\$107,169	\$1,527	-\$763
IT Tax Br	4	3	\$8,135	\$6,043	\$6,043	\$2,672	\$0	\$0
IT Operations Br	1	0	\$243	\$0	\$0	\$0	\$0	\$0
IT Projects	0	0	\$0	\$0	\$0	\$0	\$0	\$0
IT Enterprise	10	11	\$28,065	\$30,759	\$30,026	\$28,311	\$1,961	-\$1,099
IT Abstracts	1	1	\$269	\$344	\$0	\$0	-\$269	-\$304
Admin Forms	1	0	\$2,009	\$0	\$1,828	\$0	-\$181	\$0
Admin Mail	0	0	\$0	\$0	\$0	\$0	\$0	\$0
Prog Review Br	0	0	\$0	\$0	\$0	\$0	\$0	\$0
Misc (IT & Ops Br)	0	0	\$0	\$0	\$0	\$0	\$0	\$0
Grand Total	45	42²	\$141,620	\$142,109	\$144,658	\$138,152	\$3,038	-\$2,218

ESTIMATED PROJECTION OF LABOR AND ASSOCIATED COSTS

Type of Projected Costs	Questioned Federal Costs		Recalculated Federal Costs		Federal Cost Difference ¹	
	2002-03	2003-04	2003-04	2004-05	2003-04	2004-05
Salary & Wages	\$20,420,188	\$20,480,697	\$20,448,882	\$19,920,137	\$438,049	-\$519,813
Personal Benefits	\$5,629,846	\$6,819,304	\$6,805,388	\$8,173,232	\$120,770	-\$1,311,219
Operating Expense & Equipment	\$2,462,675	\$2,471,178	\$2,466,135	\$2,402,369	\$52,828	-\$38,569
Administrative Support & Technical	\$1,821,481	\$1,827,770	\$1,824,040	\$1,776,876	\$39,074	-\$50,730
Grand Total	\$30,334,190	\$31,608,949	\$31,544,445	\$32,272,614	\$650,721	-\$518,129

ESTIMATED CALCULATION RATES TABLE

Type of Projected Costs	2002-03	2003-04	2004-05	Calculation Method
Salary & Wages	144.19	144.19	144.19	Average of 2000-01 and 2001-02
Personal Benefits	27.57%	33.28%	41.03%	Published Personnel Benefit Rate
Operating Expense & Equipment	12.06%	12.06%	12.06%	Average of 2000-01 and 2001-02
Administrative Support & Technical	8.92%	8.92%	8.92%	Average of 2000-01 and 2001-02

¹ A positive amount indicates that federal programs were undercharged. A negative amount indicates an overcharge.

² The audit sampled 124 employees. The employee total is 126 because Employee #76 and #114 supported both IT Enterprise and IT Abstracts.