

**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.