

U.S. Department of Labor

Office of Inspector General—Office of Audit

**VETERANS' EMPLOYMENT
AND TRAINING SERVICE**



**TEXAS WORKFORCE COMMISSION JOBS FOR
VETERANS STATE GRANT**

**Date Issued: September 27, 2007
Report Number: 06-07-006-02-201**

BRIEFLY...

Highlights of Report Number: 06-07-006-02-201, to the Veterans' Employment and Training Service.

WHY READ THE REPORT

On April 1 2006, the Governor of Texas transferred responsibility for the Disabled Veterans' Outreach Program (DVOP) and the Local Veterans' Employment Representatives (LVER) program grant (Jobs for Veterans State Grant) from the Texas Workforce Commission (TWC) to the Texas Veterans' Commission (TVC).

Prior to this transfer, the U.S. Department of Labor's (DOL) Veterans' Employment and Training Service (VETS) had requested that TWC complete an independent audit of the grant in order to ensure a smooth transition to TVC. In response, TWC provided the Single Audit prepared by the Texas State Auditor's Office – but it did not address VETS' specific request.

WHY OIG DID THE AUDIT

VETS requested that the DOL Office of Inspector General (OIG) conduct an audit to address concerns it had regarding the grant, primarily in the areas of expenses being charged by the Local Workforce Boards, Post-Retirement Health Benefit (PRHB) costs, and reporting of unliquidated obligations.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response, go to:

<http://www.oig.dol.gov/public/reports/oa/2007/06-07-006-02-201.pdf>

September 2007

TEXAS WORKFORCE COMMISSION JOBS FOR VETERANS STATE GRANT

WHAT OIG FOUND

The OIG found \$17,905 in unsupported rent allocation costs at the Central Texas Workforce Board (CTWB).

We determined that TWC's charging of PRHB costs directly to the grant is allowable, based on Office of Management and Budget Circular A-87 guidance.

We also concluded that TWC reported its unliquidated obligations in accordance with Standard Form 269 instructions.

WHAT OIG RECOMMENDED

We recommended that the Assistant Secretary for Veterans' Employment and Training disallow and recover the \$17,905 in unsupported rent charges.

TWC and CTWB agreed to our findings and recommendation and have initiated corrective action.

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Executive Summary

On April 1 2006, the Governor of Texas transferred responsibility for the Disabled Veterans' Outreach Program (DVOP) and the Local Veterans' Employment Representatives (LVER) program grant (Jobs for Veterans State Grant) from the Texas Workforce Commission (TWC) to the Texas Veterans' Commission (TVC). Prior to this transfer, the U.S. Department of Labor's (DOL) Veterans' Employment and Training Service (VETS) had requested that TWC complete an independent audit of the grant in order to ensure a smooth transition to TVC. In response, TWC provided the Single Audit prepared by the Texas State Auditor's Office, which did not address VETS' specific request.

VETS subsequently requested that the DOL Office of Inspector General (OIG) conduct an audit to address concerns it had regarding the grant. We met with VETS National and Regional Office staff to obtain a better understanding of their concerns. Based on these discussions, we focused our work on the expenses being charged by the Local Workforce Boards (Boards), Post-Retirement Health Benefit (PRHB) costs, and reporting of unliquidated obligations. Using VETS' input, we initially selected three Boards for audit, but based on our initial results, performed work at only one Board (the Central Texas Workforce Board, or CTWB), as well as at TWC.

Objectives

We conducted a performance audit to answer the following questions:

1. Were unallowable and/or unsupported costs charged to TWC's Jobs for Veterans State Grant?
2. Were PRHB costs, charged directly to the grant, allowable?
3. Did TWC report unliquidated obligations properly?

Results

At CTWB, we found \$17,905 in unsupported rent allocation costs which we questioned¹. Because the majority of TWC's expenditures related to salaries and fringe benefits—a reasonable distribution for a staffing grant—and the exception we identified above was relatively minor, we did not perform work at the two remaining Boards that were initially selected. We determined that TWC's charging of PRHB costs directly to the grant is allowable, based on Office of Management and Budget (OMB) Circular A-87 (A-87)

¹ Rent-related expenses accounted for 85 percent of CTWB's total grant expenditures for our period of review (Exhibit B.)

guidance; and we concluded that TWC reported its unliquidated obligations in accordance with Standard Form (SF) 269 (SF-269) instructions.

Auditee Response

TWC coordinated an informal written response with CTWB, which they subsequently told us could be considered as official comments for purposes of finalizing the report. They acknowledged there was a minor discrepancy in the allocation of rent charges, and CTWB stated it has taken action to correct the allocation of rent and ensure supporting documentation is maintained.

The response is attached to this report in its entirety as Appendix D.

OIG Conclusion

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

Recommendations

We recommend that the Assistant Secretary for Veterans' Employment and Training disallow and recover the \$17,905 in unsupported rent charges.



Assistant Inspector General's Report

Mr. Charles S. Ciccolella
Assistant Secretary for Veterans'
Employment and Training Service
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, DC 20210

On April 1, 2006, the Governor of Texas transferred responsibility for the DVOP and LVER program grants (Jobs for Veterans State Grants Program) from TWC to TVC. Prior to this transfer, VETS had requested that TWC complete an independent audit of the grant in order to ensure a smooth transition to TVC. In response, TWC provided the Single Audit prepared by the Texas State Auditor's Office, which did not address VETS' specific request. VETS subsequently requested OIG to conduct an audit to address concerns it had regarding the grant, primarily in the areas of expenses being charged by the Boards, Post-Retirement Health Benefit (PRHB) costs, and reporting of unliquidated obligations.

We conducted a performance audit to answer the following questions:

1. Were unallowable and/or unsupported costs charged to TWC's Jobs for Veterans State Grant?
2. Were PRHB costs, charged directly to the grant, allowable?
3. Did TWC report unliquidated obligations properly?

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

FINDINGS AND RECOMMENDATIONS

Objective 1 – Were unallowable and/or unsupported costs charged to TWC’s Jobs for Veterans State Grant?

Unsupported Rent Allocations Were Identified at One Local Workforce Board.

At CTWB, we questioned \$17,905 in unsupported rent allocation costs, which represents three percent of CTWB’s total charges to the grant². CTWB allocated rent to programs/grants based on their respective percentage of total time charged. However, CTWB did not maintain time records to fully support the sampled rent allocation costs charged to the Jobs for Veterans State Grants Program.

The Jobs for Veterans grant, Section IX, states that cost principles in A-87 are applicable. Specifically, Attachment A, section C (Basic Guidelines) in A-87 states that factors affecting allowability of costs include that costs must be adequately documented.

In addition, Title 29, Code of Federal Regulations (29 CFR), part 97 subpart C, section 97.20 (Common Rule)-- prescribed by DOL for all grants with State and Local governments--states that accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contracts and subgrant award documents, etc.

In an e-mail dated April 23, 2007, a CTWB official agreed to address the issue we identified (Exhibit B) by maintaining the required supporting timesheet documentation at the Board level.

Other Reviewed Costs Appeared Reasonable.

Our analysis of aggregate grant expenditures at TWC showed a low risk that further review would identify significant questionable costs. A comparison of these expenditures to the approved cost allocation plan did not identify any discrepancies. Further, approximately 53 percent of total grant funding was used for DVOP/LVER salaries and fringe benefits, which we determined to be a reasonable distribution of funding for a staffing grant.

Our review of a statistical sample of transactions at CTWB, in the cost categories of administrative allocation and travel, revealed no discrepancies

² Rent-related expenses accounted for 85 percent of CTWB’s total grant expenditures for our period of review (Exhibit B.)

Objective 2 – Were PRHB costs, charged directly to the grant, allowable?

PRHB Costs Charged Directly to the Grant Were Allowable.

We concluded that TWC's charging of PRHB costs directly to the grant were allowable. These costs represented \$1,408,751, or approximately 5 percent, of total grant funding issued during our audit period (Exhibit A.)

TWC allocated PRHB costs to the appropriate programs based on the total direct salaries of current TWC staff, which was in accordance with OMB A-87 guidance. Further, PRHB costs were included in TWC's cost allocation plan, which was approved by the DOL's Office of Cost Determination.

OMB Circular A-87, Attachment B, section f, states that:

Post-retirement health benefits refers to costs of health insurance or health services not included in a pension plan covered by subsection e. for retirees and their spouses, dependents, and survivors. PRHB costs may be computed using a "pay-as-you-go method." . . .

Objective 3 – Did TWC report unliquidated obligations properly?

TWC Reported Unliquidated Obligations Properly.

We concluded that TWC reported unliquidated obligations properly on SF-269, the Financial Quarterly Report. TWC's accounting procedures for reporting unliquidated obligations on the SF-269 followed prescribed reporting requirements, and were as follows:

- TWC contracts with the Boards; this is shown as an obligation in TWC's accounting system.
- The Boards report their actual expenses monthly through an on-line reporting system.
- TWC consolidates the Boards' reported actual expenses with the state-level expenses to determine what funding has not been expended (unliquidated obligations).
- This amount is then shown as an unliquidated obligation on the SF-269.

SF-269 (Financial Quarterly Report) states that the unliquidated obligations line should consist of the following:

Enter the total amount of unliquidated obligations, including unliquidated obligations to **sub-grantees** (emphasis added) and contractors. Unliquidated obligations on a cash basis are obligations incurred, but not

yet paid. On an accrual basis, they are obligations incurred, but for which an outlay has not yet been recorded.

Agency Response

TWC coordinated an informal written response with CTWB, which they subsequently told us could be considered as official comments for purposes of finalizing the report. They acknowledged there was a minor discrepancy in the allocation of rent charges, and CTWB stated it has taken action to correct the allocation of rent and ensure supporting documentation is maintained.

The response is attached to this report in its entirety as Appendix D.

OIG Conclusion

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

Recommendations

We recommend that the Assistant Secretary for Veterans' Employment and Training disallow and recover the \$17,905 in unsupported rent charges.



Elliot P. Lewis
July 30, 2007

Exhibits

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EXHIBIT A

**TWC Jobs for Veterans State Grant Expenditures
October 1, 2003 - March 31, 2006**

Type of Expense	Amount	Percent of Total Funding
DVOP/LVER Salaries and Fringe Benefits	\$15,153,106	53
Operating Grants	5,181,589	18
State Direct Charges		
• Non DVOP/LVER Direct Salaries and Benefits	2,931,173	10
• PRHB	1,408,751	5
• Other	1,493,063	5
State Indirect Charges	2,463,649	9
Total Charges	\$28,631,332	
Total Funding	\$28,644,327	100

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EXHIBIT B

Central Texas Workforce Board General Analysis

CTWB Jobs for Veterans State Grant Expenditures
October 1, 2003 - March 31, 2006

Type of Expense	Amount	Percent of CTWB Total Funding
Rent/Rent Related Allocation	\$499,101	85
Administrative Allocation	47,821	8
Equipment	26,660	4
DVOP/LVER Travel	9,249	2
Miscellaneous	1,297	1
Total Grant Expenditures	\$584,128	
Total Grant Funding	\$584,128	100

CTWB Amounts and Percentages for the Twenty-Nine Transactions Tested
October 1, 2003 - March 31, 2006

Type of Expense	Amounts Tested	Total	Percentage
Rent/Rent Related Allocation	\$148,474	\$499,101	29.75
Administrative Allocation	9,565	47,821	20
DVOP/LVER Travel	453	9,249	4.9
Equipment	Not Tested	26,660	
Miscellaneous	Not Tested	1,297	
Total	158,492	\$584,128	27.13

Schedule of Questioned Costs: CTWB Rent Allocation Transactions

Transaction			Unsupported Portion of Expense
Posting Number	Date	Original Amount	
601	04/28/2004	\$70,895	\$12,426
338	02/03/2006	10,158	2,095
150	09/01/2005	8,128	893
180	09/01/2005	7,888	2,491
Total		\$97,070	\$17,905

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Appendices

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APPENDIX A

BACKGROUND

VETS offers employment and training services to eligible veterans through the Jobs for Veterans State Grants. Under this non-competitive grant program, funds are generally allocated to the designated administrative entity that operates the One-Stop employment and workforce information service system within each state. The grant supports two principal staff positions:

- Disabled Veterans' Outreach Program Specialists
- Local Veterans' Employment Representatives

Services are provided to maximize employment and training opportunities for veterans, other eligible persons, transitioning service members, their spouses (through the Transition Assistance Program Employment Workshops) and, indirectly, employers. The grant allows states more flexibility to determine the most effective and efficient distribution of staff resources based upon the distinct roles and responsibilities of the DVOP and LVER positions.

The Jobs for Veterans State Grant requires that the State submit a plan that describes the manner in which it will furnish employment, training, and placement services required under Chapter 41 of Title 38, United States Code (U.S.C.). This plan should include: DVOP/LVER duties and integration into the employment service delivery system, how veterans' priority is applied, Veterans' performance goals and their anticipated outcomes, and any additional information the VETS Assistant Secretary may require. The State is given a set allocation from which to develop its plan. The allocation goes to the State in one funding stream as a program grant and then is divided at the State level through separate accounting programs.

TWC's plan stated that funding would be allocated to 28 Boards, and identified these allocations as resource agreements. Through these agreements, TWC allocated approximately 18 percent of its total grant funding--\$5.2 million of \$28.6 million--to the Boards for nonpersonnel costs of DVOP/LVER staff located in the Centers (Exhibit A.)

On April 1, 2006, the Governor of Texas transferred the responsibility of the Jobs for Veterans State Grants from TWC to TVC. Prior to this transfer, VETS had requested that TWC complete an independent audit of the grant in order to ensure a smooth transition to TVC. In response, TWC provided the Single Audit prepared by the Texas State Auditor's Office, which did not address VETS' specific request. VETS subsequently requested that OIG conduct an audit to address concerns it had regarding the grant.

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APPENDIX B

OBJECTIVES, SCOPE, METHODOLOGY, AND CRITERIA

Objectives

The audit objectives were to answer the following questions:

1. Were unallowable and/or unsupported costs charged to TWC's Jobs for Veterans State Grant?
2. Were PRHB costs, charged directly to the grant, allowable?
3. Did TWC report unliquidated obligations properly?

Scope

The audit covered transactions charged to the Jobs for Veterans State Grant by TWC between October 1, 2003, to March 31, 2006.³ The audit period was selected based on input from VETS and the OIG National Office. Our on-site work was completed at the TWC office in Austin, Texas, and the CTWB office in Belton, Texas. Analysis was completed at our Dallas and Denver Offices. Our fieldwork was performed from October 2006 through April 2007.

Based on discussions with VETS' National Office staff and Dallas Regional staff, we initially selected 3 Boards in which to conduct detailed transaction testing. However, after completing fieldwork at the first Board, CTWB, and identifying only a single discrepancy, we determined that additional fieldwork would not be performed.

Based on a review of TWC's monitoring reports and cost allocation plan, KPMG's internal control questionnaires (part of Single Audit) and results, and interviews with TWC's key accounting personnel, we determined that TWC had sufficient internal controls in place as they related to our audit objectives. For this audit, OIG has relied upon information gathered during these interviews, as well as KPMG's audit work, to help provide reasonable assurance that TWC's internal controls were effectively designed and functioning properly.

Internal control work conducted at CTWB consisted of reviewing TWC's monitoring reports and independent audit reports, and interviewing key CTWB accounting personnel. Further, we analyzed a statistical sample of CTWB transactions to determine if they met OMB Circular A-87's definition for being allowable and supported.

³ This covers the period of time during which VETS officials felt there were issues with TWC's management of the grant, with March 31, 2006 denoting the end of TWC's management of the grant.

Methodology

To determine whether costs charged to TWC's Jobs for Veterans State Grant were allowable, we interviewed staff at TWC, TVC, and CTWB, and reviewed monitoring reports, contracts, Federal and Agency laws, regulations, policies and procedures, and the work of other auditors. We obtained the universe of 103,009 transactions associated with the Jobs for Veterans State Grant for the period of October 1, 2003 through March 31, 2006. These transactions were obtained from TWC's accounting system and provided in a data file. Since TWC did not have the Board-level transaction detail, we obtained from CTWB a data file detailing the 285 transactions it completed for the same period.

At TWC, we analyzed a judgmental sample of 6 transactions to determine if they were allowable and supported. A judgmental selection was used based on discussions with VETS officials, who emphasized that their concerns were with charges at the Board level. This sample comprised \$25,782 of the \$28,644,327 in funding received by TWC. The sample consisted of 2 transactions from each grant year (2004-2006) from the following categories—DVOP/LVER salaries, direct charges, and indirect charges.

At CTWB, we analyzed a statistical sample of 29 transactions to determine if they were allowable and supported. This sample comprised three cost categories—rent/rent-related allocation, administrative allocation, and travel--and represented \$158,492 of the \$584,128 in total grant funding that CTWB received (Exhibit B.)

We determined data reliability by comparing total expenses charged to the grant to the total grant amount at both the TWC and Board level.

In order to answer VETS' questions regarding the allowability of PRHB costs, and to determine if PRHB costs, charged directly to the grant, were allowable, we conducted interviews with TWC finance personnel, reviewed TWC's calculations for determining PRHB allocations, and reviewed applicable federal guidelines in A-87.

To determine whether TWC reported unliquidated obligations properly, we conducted interviews with TWC finance personnel and reviewed applicable regulations and guidelines.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards for performance audits.

Criteria

We used the following criteria to perform our audit:

Federal:

- OMB Circular A-87: Cost Principles for State, Local, and Indian Tribal Governments

- OMB Circular A-102: Grants and Cooperative Agreements with State and Local Governments
- CFR, Title 29, Subpart C - Financial Administration
- Title 38, Chapter 41 USC: Job Counseling, Training, and Placement Service for Veterans
- Title 38, Chapter 42 USC.: Employment and Training of Veterans'
- Public Law 107-288: Jobs for Veterans Act

Program-Specific Policies, Regulations, or Directives:

- The Solicitation for Grant Applications: Jobs for Veterans State Grant
- Special Grant Provisions: October 1, 2001 through September 30, 2005 and October 1, 2004 through September 30, 2009

Veterans Program Letters:

- Number (No.) 01-04: Reporting Requirements for DVOP/LVER Grants for fiscal year (FY) 2004
- No. 07-04: Projecting Balance of FY 2004 Spending, Final DVOP/LVER Grant Modifications and Fifth Quarter Funding
- No. 02-05: FY 2004 Fifth and Final Quarter Reports and Annual Incentive Reporting Requirements
- No. 04-05: Jobs for Veterans Grant Yearly Modification Request for FY 2006 Funding
- No. 05-05: Direct and Indirect Charges to the FY 2005-2009 Jobs for Veterans State Grants
- No. 07-05: Staffing, Reporting Requirements and Roles and Responsibilities of the DVOP and LVER under the Jobs for Veterans State Grant
- No. 02-06: Jobs for Veterans State Grant Reporting

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APPENDIX C

ACRONYMS AND ABBREVIATIONS

DOL	Department of Labor
CFR	Code of Federal Regulations
CTWB	Central Texas Workforce Board
DVOP	Disabled Veteran Outreach Program
FY	Fiscal Year
LVER	Local Veterans' Employment Representative
No.	Number
OIG	Office of Inspector General
OMB	Office of Management and Budget
PRHB	Post Retirement Health Benefits
SF	Standard Form
TVC	Texas Veterans Commission
TWC	Texas Workforce Commission
USC	United States Code
VETS	Veterans' Employment and Training Service

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APPENDIX D

AGENCY RESPONSE TO DRAFT REPORT

Executive Summary (Pages 3-4 of Discussion Draft)

Results:

At CTWB, we found \$17,905 in unsupported rent allocation costs which we questioned¹. Because the majority of TWC's expenditures related to salaries and fringe benefits – a reasonable distribution of a staffing grant – and the exception we identified above was relatively minor, we did not perform work at the two remaining Boards that were initially selected. We determined that TWC's charging of PRHB costs directly to the grant is allowable, based on Office of Management and Budget (OMB) Circular A-87 (A-87) guidance; and we concluded that TWC reported its unliquidated obligations in accordance with Standard Form (SF) 269 (SF-269) instructions.

Auditee Response:

The Texas Workforce Commission (Commission) would like to thank the U.S. Department of Labor's Office of Inspector General's audit team for their professionalism throughout the audit. The Commission appreciates the confirmation that costs are being applied, allocated and properly reported.

The Central Texas Local Workforce Development Board (LWDB) acknowledges there was a minor discrepancy in the allocation of rent charges. Central Texas LWDB has taken appropriate action to correct the allocation of rent, as well as ensuring supporting documentation is maintained.

Results (Pages 6-8 of Discussion Draft)

Objective 1 – Were unallowable and/or unsupported costs charged to TWC's Jobs for Veterans State Grant?

At CTWB, we questioned \$17,905 in unsupported rent allocation costs, which represents three percent of CTWB's total charges to the grant². CTWB allocated rent to program/grants based on their respective percentage of total time charged. However, CTWB did not maintain time records to fully support the sampled rent allocation costs charged to the Jobs for Veterans State Grants Program.

Our review of a statistical sample of transactions at CTWB, in the cost categories of administrative allocation and travel, revealed no discrepancies.

Objective 2 – Were PRHB costs, charged directly to the grant, allowable?

We concluded that TWC's charging of PRHB costs directly to the grant were allowable.

Objective 3 – Did TWC report unliquidated obligations properly?

We concluded that TWC reported unliquidated obligations properly on SF-269, the Financial Quarterly Report.

Agency Response:

The Central Texas Local Workforce Development Board (LWDB) acknowledges there was a minor discrepancy in the allocation of rent charges. As a result, the Central Texas LWDB has corrected and is appropriately allocating rent, as well as maintaining the necessary supporting documentation. Central Texas LWDB has determined that during that same time period there were other allocable costs that were not charged to the Veterans' Employment and Training Service program due to lack of available funds under the grant. Central Texas LWDB welcomes the opportunity to work with Veterans' Employment and Training Service during the audit resolution process to provide the supporting documentation in applying these other costs as stand-in costs in place of the questioned costs.

The Texas Workforce Commission appreciates the confirmation that costs at the State level are being applied, allocated and properly reported.