

U.S. Department of Labor

Office of Inspector General—Office of Audit

**OFFICE OF THE
SECRETARY**



INTERNAL CONTROLS OVER COMMISSION FOR LABOR COOPERATION SECRETARIAT ACTIVITIES NEED STRENGTHENING

Date: April 7, 2008
Report Number: 21-08-002-01-070

**U.S. Department of Labor
Office of Inspector General
Office of Audit**

BRIEFLY...

Highlights of Report Number: 21-08-002-01-070, *Internal Controls Over Commission for Labor Cooperation Secretariat Activities Need Strengthening*, to the Secretary of Labor, dated April 7, 2008.

WHY READ THE REPORT

The Commission for Labor Cooperation (CLC) is a tri-national, not-for-profit organization created under the North American Agreement on Labor Cooperation. The CLC promotes cooperative activities and research in the areas of labor standards, labor law and human resource development. A Ministerial Council, consisting of the Minister of Labor from Canada and the Secretaries of Labor from Mexico and the United States, oversees the activities of the CLC. These activities are carried out by a 15-person Secretariat. The CLC is funded through equal contributions from the three participating countries.

WHY OIG CONDUCTED THE AUDIT

The Executive Director of the CLC Secretariat resigned in October 2006 after an internal review identified issues relative to CLC Secretariat leadership, staff practices, and the inappropriate use of funds. In response to the internal review and Congressional concerns that followed, we conducted a performance audit of the CLC's Secretariat's expenditures to determine (1) whether CLC internal controls were adequate to ensure that CLC Secretariat activities and expenditures supported its mission and (2) what contributed to the decline in the CLC General Fund balance. Our audit covered the period 2004 through 2006.

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/2008/21-08-002-01-070.pdf>

April 2008

WHAT OIG FOUND

CLC internal controls over its activities and expenditures were not always followed or sufficient. The CLC Secretariat:

- could not demonstrate that contracts and vendor payments totaling about \$1 million were used to support the CLC mission or that it actually received the goods or services for which it paid;
- could not demonstrate that travel expenditures of \$9,930, hospitality and representation expenditures totaling \$18,020, or employee relocation expenditures totaling \$12,669, were appropriate uses of CLC funds; and
- did not regularly submit required financial reports to the Ministerial Council, and reports that were submitted provided only summary financial data that did not include sufficient details for an adequate Ministerial Council review of Secretariat activities.

We found that the CLC General Fund balance declined primarily as a result of assessment credits granted to the funding countries.

WHAT OIG RECOMMENDED

We recommended that the Secretary of Labor ask the Ministerial Council to take ten specific actions to improve internal controls at the CLC.

Key actions we recommended include:

- ensuring all procurement actions are adequately documented and approved;
- enforcing the existing requirements for approving travel and designating responsibilities for approval of the Executive Director's travel;
- revising policies and procedures for hospitality/representational activities and reimbursement of employee relocation expenses; and
- requiring the Secretariat to submit detailed quarterly interim financial reports on a timely basis.

In response to our draft report, the Deputy Under Secretary for International Affairs stated that she will work closely with her counterparts in Canada and Mexico to undertake our recommended actions.

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Executive Summary

The Commission for Labor Cooperation (CLC) is an international, not-for-profit organization created in 1994 under the North American Agreement on Labor Cooperation (NAALC). NAALC is a supplemental agreement to the North American Free Trade Agreement (NAFTA). The CLC promotes cooperative activities and research in the areas of labor standards, labor law and human resource development. Financed through U.S. Department of Labor (DOL) appropriated funds and equal contributions from the governments of Canada and Mexico, the CLC consists of a Ministerial Council and an Office of the Secretariat (CLC Secretariat). The Ministerial Council is composed of the Minister of Labor from Canada and the Secretaries of Labor from Mexico and the United States. The CLC Secretariat has a staff of 15 employees and assists the Ministerial Council in carrying out its functions.

The CLC works closely with the National Administrative Offices (NAOs) created by each government within their own labor ministry to implement the NAALC. The NAOs provide administrative/advisory support to both the CLC and the Ministerial Council. In DOL, the Deputy Under Secretary for International Affairs serves as the U.S. Council designee, and the Bureau of International Labor Affairs (ILAB), Office of Trade and Labor Affairs (OTLA), functions as the National Administrative Office.

In August 2004, the Ministerial Council appointed Mark Knouse, a Pittsburgh-based government affairs consultant whose spouse works in the Office of the Secretary at DOL, to be the Executive Director of the CLC Secretariat. The Executive Director is the principal officer in charge of all aspects of the CLC Secretariat and enjoys diplomatic immunity. The duties of the Executive Director include appointing and supervising staff, submitting for the approval of the Ministerial Council the annual plan of activities and budget for the CLC, reporting to the Ministerial Council annually on the activities and expenditures of the CLC Secretariat, and coordinating the preparation of studies requested by the Ministerial Council. Mr. Knouse's term ended with his resignation in October 2006 after an internal review identified issues relative to CLC Secretariat leadership, staff practices, and the inappropriate use of funds during his tenure as Executive Director.

In response to the internal review and Congressional concerns that followed, we conducted a performance audit of expenditures incurred by the CLC Secretariat during Calendar Years (CYs) 2004 through 2006. We designed our audit procedures to answer the following questions:

1. Were CLC internal controls adequate to ensure that the CLC Secretariat activities and expenditures supported its mission?
2. What contributed to the decline in the CLC General Fund balance?

Results

CLC internal controls were not adequate to ensure that the CLC Secretariat activities and expenditures supported the CLC mission. We found that CLC policies and procedures governing its activities and expenditures were not always followed or sufficient.

As a result of these internal control problems, the CLC Secretariat:

- could not demonstrate that contracts and vendor payments totaling approximately \$1 million were used to support the CLC mission or that it actually received the goods or services for which it paid;
- could not demonstrate that travel expenditures of \$9,930 incurred by Executive Director Mark Knouse and a CLC staff person supported the CLC mission;
- could not demonstrate whether hospitality and representation expenditures totaling \$18,020, or relocation expenditures totaling \$12,669 for employees to travel back and forth from their pre-employment homes, were appropriate uses of CLC funds;
- did not specify the minimum qualifications required for staff positions; consequently, we were unable to determine if the employees hired were qualified to carry out their responsibilities;
- did not provide documentation of specific duties assigned to contract research assistants and interns; consequently, we were unable to determine whether the research assistants and interns were used in a manner that supported the CLC mission; and
- did not regularly submit required quarterly financial reports to the Ministerial Council, and reports that were submitted provided only summary financial data that did not include sufficient details for an adequate Ministerial Council review of Secretariat activities.

The CLC General Fund balance declined from \$1,987,691, as of January 1, 2004, to \$606,916, as of December 31, 2006, primarily as a result of assessment credits granted to the funding countries, in accordance with CLC policy. CLC Secretariat spending remained relatively level and nominally affected the General Fund balance. As noted above, documentation was not always sufficient for us to determine whether CLC Secretariat expenditures were an appropriate use of CLC funds.

The Office of Audit did not make any referrals related to questionable expenditures discussed in this report to the OIG's investigative office, because Mr. Knouse, as the Executive Director of the Secretariat, was entitled to diplomatic immunity from prosecution, and the CLC did not respond to the OIG's request to waive this immunity.

Recommendations

Given that DOL appropriated funds are used to support the mission of the CLC, we recommend that the Secretary ask the Ministerial Council to take the following actions:

1. Develop and implement sufficient internal controls to ensure all procurement actions are adequately documented, reviewed and approved from award through contract execution and completion. This documentation should include copies of competing bids, or, if not competed, a copy of the rationale for not obtaining bids, and a copy of the executed contract and any contract modifications, as well as evidence of all deliverables received.
2. Enforce the existing requirement regarding the documentation to be submitted with travel voucher claims before approval for payment and designate responsibilities for approval of travel and related voucher claims made by the Executive Director.
3. Revise CLC Rules of Employment, Rule 26 to include guidelines on hospitality and representational activities that specify which expenditures are, and which expenditures are not, eligible for funding.
4. Evaluate and revise Accounting Policy 5.0 (Employee Relocation and Home Leave) to define "special circumstances" to ensure relocation funds are used only for relocation purposes and not for purposes unrelated to relocation.
5. Amend Annex A of the CLC Employment Rules to require the Executive Director to prepare not only a job description for each vacant position, but to also specify the minimum qualifications needed to carry out the duties detailed in the job description.
6. Amend the CLC Temporary Research Assistant and Intern Policies to require the CLC Secretariat to maintain documentation supporting the qualifications of those contractors and the work they perform.
7. Enforce the existing requirement that the Secretariat Executive Director ensure that employees receive annual performance appraisals.
8. Enforce the existing requirement that the Secretariat Executive Director provide quarterly interim financial reports on a timely basis.
9. Require a detailed accounting of procurement, travel, hospitality/representation, and relocation activities and expenses in the interim financial reports.
10. Take a more proactive role in monitoring CLC Secretariat activities and expenditures.

Agency Response

In response to the draft report, the Deputy Under Secretary for International Affairs stated that ILAB fully concurs with the audit findings and corresponding recommendations for improving the internal controls over the CLC Secretariat. She further stated that ILAB will work closely with its counterparts in Canada and Mexico to undertake the actions recommended in this report.

The Deputy Under Secretary cited a number of actions the CLC has taken to address issues of Secretariat management, accountability, and oversight. These actions included: authorizing an independent audit of the Secretariat's internal controls conducted as part of its 2006 financial statement audit; freezing the Secretariat's budgetary expenditures and staffing actions in September 2006 pending further notification from the Council; appointing a new Director of Administration at the Secretariat to focus on reviewing and improving financial and administrative controls; and increasing the involvement of the Council Designees in addressing Secretariat financial and administrative matters.

The Deputy Under Secretary also stated that the State Department oversees waiver of immunity requests involving U.S. employees of international organizations, and ILAB has referred the OIG's waiver request to the U.S. State Department for its advice and recommendations. The Deputy Under Secretary noted that the DOL Office of the Solicitor had informed OIG of the referral and provided OIG with a contact at the State Department in case OIG wanted to discuss the waiver request with the State Department.

See Appendix D for ILAB's complete response to our draft report.

OIG Conclusion

Based on the actions that the Bureau of International Labor Affairs states the CLC has taken and plans to take, we consider the recommendations resolved.

The OIG contacted CLC on March 14, 2007, requesting a waiver of immunity for Mr. Knouse, pursuant to the CLC's by-laws. Approximately four months later, after two follow-up requests regarding the status of our waiver request, the DOL Office of the Solicitor advised us that it had raised our request with the U.S. State Department. On August 29, 2007, the Office of the Solicitor suggested that the OIG follow-up with the State Department directly. The OIG's request was made directly to the CLC, and we do not believe it is appropriate or necessary for the OIG to contact the State Department directly regarding this issue.

U.S. Department of Labor

**Office of Inspector General
Washington, DC 20210**



April 7, 2008

Assistant Inspector General's Report

The Honorable Elaine L. Chao
Secretary of Labor
200 Constitution Avenue, NW
Washington, DC 20210

In response to recommendations made by an internal review and Congressional concerns that followed, we conducted a performance audit of the Commission for Labor Cooperation (CLC) Secretariat expenditures during CYs 2004 through 2006.

The CLC is an international organization established by Part Three of the North American Agreement on Labor Cooperation (NAALC). The NAALC is a supplemental agreement to the North American Free Trade Agreement (NAFTA) signed by the United States, Mexico and Canada, which became effective on January 1, 1994. The objectives of the NAALC are, among other things, to improve working conditions and living standards, to promote a set of guiding labor principles, and to encourage cooperation to promote innovation and rising levels of productivity and quality.

The CLC was established in 1994 and consists of the Ministerial Council and the CLC Secretariat. The Ministerial Council, composed of the Minister of Labor from Canada and the Secretaries of Labor from Mexico and the United States, oversees implementation of the NAALC and supervises the activities of the CLC Secretariat. The Ministerial Council promotes cooperative activities and research in the areas of labor law, labor standards, labor relations, and labor markets.

The CLC Secretariat, located in Washington, DC, undertakes labor-related research and assists the member countries with their cooperative activities. The CLC Secretariat has a staff of 15 employees from the three participating countries and is headed by an Executive Director. The Executive Director is chosen by the Ministerial Council for a 3-year term that may be renewed for one additional 3-year term. The Executive Director position is filled by individuals from each of the three member countries, on a rotating basis.

In August 2004, when it became time to have a U.S. Executive Director, the Ministerial Council appointed Mark Knouse, a Pittsburgh-based government affairs consultant and the spouse of an employee in the Office of the Secretary at DOL. Mr. Knouse's term ended with his resignation in October 2006, after an internal review suggested that he used CLC monies to fund lobbying activities on behalf of his Pittsburgh-based clients.

Specifically, on August 18, 2006, the Bureau of International Labor Affairs, Office of Trade Agreement Implementation (OTAI)¹ completed an internal review that identified issues relative to CLC Secretariat leadership, staff practices, and expenditures that raised concerns and allegations of inappropriate use of funds during the tenure of Executive Director Mark Knouse (August 2004 – October 2006). OTAI recommended that the Ministerial Council authorize an independent audit of CLC Secretariat expenditures.

On November 1, 2006, the Chairman of the House Committee on Education and Labor sent a letter to the U.S. Secretary of Labor requesting more information about the dealings that led to the resignation of the former Executive Director, Mark Knouse. Congressional staffers later expressed concern that spending during Mr. Knouse's tenure had depleted the CLC General Fund.

In response to the internal review and the Congressional concerns that followed, the OIG initiated a performance audit of CLC activities and expenditures for the period January 1, 2004 through December 31, 2006. We designed our audit procedures to answer the following questions:

1. Were CLC internal controls adequate to ensure that the CLC Secretariat's activities and expenditures supported its mission?
2. What contributed to the decline in the CLC General Fund balance?

We concluded that CLC internal controls were not adequate to ensure that the CLC Secretariat activities and expenditures supported the CLC mission. We found that CLC policies and procedures governing its activities and expenditures were not always followed or sufficient in the following areas: procurement, travel, hospitality/representation, employee relocation, and staffing. The Office of Audit did not make any referrals related to questionable expenditures discussed in this report to the OIG's investigative office, because Mr. Knouse, as the Executive Director of the Secretariat, was entitled to diplomatic immunity from prosecution, and the CLC did not respond to the OIG's request to waive this immunity. We also found that the decline in the CLC General Fund balance resulted primarily from contribution credits granted to the funding countries, in accordance with CLC policy.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit objectives, scope, methodology and criteria are detailed in Appendix B.

¹ OTAI is now part of the Office of Trade and Labor Affairs (OTLA), which serves as the U.S. National Administrative Office.

Results and Findings

Objective 1 – Were CLC internal controls adequate to ensure that the CLC Secretariat activities and expenditures supported its mission?

CLC internal controls were not adequate to ensure that the CLC Secretariat activities and expenditures supported the CLC mission. We found that CLC policies and procedures governing its activities and expenditures were not always followed or were not sufficient in the following areas: procurement, travel, hospitality/representation, employee relocation, and staffing. Therefore, more proactive Ministerial Council oversight of CLC Secretariat activities is needed.

The Committee on Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as follows:

Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

CLC has recognized the value that strong internal controls bring to an organization. The CLC Financial Rules, September 1, 2005, paragraph 8.1, states the following:

The Executive Director shall establish procedures:

- (a) to ensure effective and prudent financial administration, including proper segregation of duties; and
- (b) to ensure that all transactions are adequately supported by documentation and have received proper authorization.

Procurement

During CYs 2004 through 2006, the CLC Secretariat awarded 21 contracts and made payments to 49 additional vendors, all totaling approximately \$1 million. However, CLC Secretariat officials were unable to provide supporting documentation to demonstrate that the \$1 million was used to support the CLC mission or that the CLC received the goods or services for which it paid.

The table below summarizes services acquired by the CLC Secretariat during CYs 2004 through 2006:

Calendar Year	Number of Contracts/Vendors	Total Dollars
2004	21	\$219,493
2005	29	406,214
2006	20	407,421
TOTAL	70	\$1,033,128

The CLC Financial Rules, paragraph 8.1(b), September 1, 2005, states “. . . the Executive Director shall establish procedures to ensure that all transactions are adequately supported by documentation and have received proper authorization.”

In response to our requests for all contracts awarded, CLC Secretariat officials provided documentation that supported 21 contracts, primarily for the acquisition of research, accounting, legal and consulting services. Our analysis of the contract documentation found that the goods and services specified were appropriate uses of CLC funds. However, CLC Secretariat officials were unable to provide other requested documentation, such as invoices, contract modifications, or evidence of contract deliverables. As a result, the CLC Secretariat could not demonstrate whether it received the \$528,522 in products and services for which it contracted in CYs 2004-2006. (See Exhibit 1.) For example, in 2004, a contract for \$35,000 was awarded to produce a body of research on the subject of migrant law. The CLC Secretariat could not provide documentation to show that the research work contracted for was ever received.

In addition to the 21 contracts discussed above, our review of the general ledger identified payments to an additional 49 vendors, totaling \$511,198. (See Exhibit 2.) According to the general ledger, the CLC Secretariat made payments for research, accounting, computer, and legal services. CLC Secretariat officials were unable to provide copies of the related contracts or any other documentation related to these payments. Without such documentation, the CLC Secretariat could not demonstrate whether the payments were for services that supported the CLC mission, or even whether the services were actually received.

Additionally, the Secretariat could not demonstrate that competitive sources were considered in 25 cases that required that competition be considered. This is because

the CLC Secretariat did not adhere to established policies and procedures, nor did it make provisions for the policies and procedures to apply to the Executive Director. CLC Financial Policies and Procedures, May 1999, paragraph 2.1, Contracting Policy, states:

The following guidelines for purchase contracts for goods or services with one vendor for amounts exceeding \$12,000 should be considered prior to contracting for such goods and services. At least three bids from competing sources should be obtained in writing, or the requester should document the rationale why three competing bids were not possible or was not considered appropriate with such documented on purchase requisition with the competing bids attached. Appropriate approval should be obtained on the purchase requisition prior to executing any vendor contracts.

The CLC Secretariat made payments to 25 vendors for amounts exceeding \$12,000 each, for a total of \$822,587. The CLC Secretariat was unable to provide documentation to demonstrate whether competing bids were obtained or a rationale was prepared to explain why it was not possible or appropriate to obtain bids. According to a CLC Secretariat official, during Mr. Knouse's tenure, contracts were awarded without competition. As a result of not adhering to established CLC policies and procedures for maintaining adequate documentation, the CLC Secretariat could not demonstrate for the 25 vendors that services were properly acquired or that the best value was obtained.

Adequate and consistent oversight by Secretariat officials is essential to ensure that procurement activities and expenditures are an appropriate use of CLC funds; that established CLC policies and procedures are followed; and that required documentation is maintained.

Travel

During Mark Knouse's tenure as Executive Director, he and CLC Secretariat staff traveled 49 times, incurring travel expenses of \$56,176. For 18 of these trips, Mr. Knouse and CLC Secretariat staff did not follow established procedures for documenting travel activities:

- For 17 trips totaling \$8,703, Mr. Knouse did not include travel activity reports or identify trip purpose, key contacts, and trip results. (see Exhibit 3). Fifteen of these trips involved travel to his home state of Pennsylvania
- For one trip to New York totaling \$1,227, a CLC Secretariat staff member did not include an agenda or trip results.

CLC Financial Policies & Procedures, Accounting Policy 4.0 - Business Travel, May 1999, states:

The business travel directive of the Commission is a directive intended to provide fair, reasonable, and efficient reimbursement of expenses incurred in carrying out the Commission's business with a minimum of administrative burden and cost. . . . and it is expected that the staff will exercise common sense and discretion equally in incurring expenses on behalf of the organization.

CLC Financial Policies & Procedures, Accounting Policy 4.0.1 - Travel Costs, May 1999, states:

All travel must be authorized in advance by the Executive Director. Advance Requests and Travel Voucher reimbursements are the responsibility of each employee, and approved by the Executive Director....

CLC Financial Policies & Procedures, Accounting Policy 4.0.7 – Travel Reports, May 1999, states:

Within 5 working days of return from business travel, every employee shall submit to the Executive Director a Travel Activity Report, together with a copy of his/her Travel Expense Claim Report. The Travel Activity Report should cover the following topics: (a) destination, date of departure and date of return; (b) purpose of travel; (c) key contacts [individuals/ organizations]; (d) results; and (e) follow-up action required [if any].

For the 18 trips totaling \$9,930 described above, Mr. Knouse and a CLC staff member were reimbursed for travel costs even though they had not submitted the required documentation. Without documentation of the purpose of the travel, we could not determine whether the travel expenditures supported the CLC mission. Further, CLC's policy and procedures for business travel did not require prior approval of Mr. Knouse's travel, nor did the policy identify who was responsible for approving the reimbursement of travel expenses incurred by Mr. Knouse.

Hospitality and Representation

During CYs 2004-2006, the CLC Secretariat incurred 228 hospitality and representation expenditures totaling \$18,020 that were insufficiently documented. The documentation maintained by the CLC Secretariat did not adequately describe the purpose of the hospitality/representation activity.

Category	# of Expenditures	Amount
Mark Knouse and Non-CLC participant	154	\$9,302
Mark Knouse, CLC staff, and Non-CLC Participant	26	3,479
CLC Staff and Non-CLC Participant	17	1,562
CLC Staff Only	31	3,677
Total	228	\$18,020

These expenditures primarily involved reimbursing Mr. Knouse for lunches and dinners with members and staff of the United States Congress and the Pennsylvania General Assembly.

CLC policy governing hospitality and representation expenditures does not provide sufficient guidelines for the types of eligible hospitality events or activities and prescribed funding limitations. As a result of the insufficient documentation, we were unable to determine if these expenditures were an appropriate use of CLC funds.

Rule 26, Hospitality and Representation, of the Commission for Labor Cooperation Rules of Employment, amended September 1, 2005, requires:

The Executive Director may engage in hospitality and representational activities and may authorize staff to engage in such activities within prescribed limitations.

Rule 26 also states:

The employees shall promptly submit fully documented claims for expenses incurred in the course of such activities.

While Rule 26 allows the expenditure of CLC funds for hospitality and representation activities, it does not define what is an eligible activity or the limitations that should be placed on these activities. Further, the rule does not describe what documentation should be submitted to support expenses incurred. This unclear policy guidance increased the risk that CLC Secretariat employees incurred hospitality or representation expenses that did not support the CLC mission.

Employee Relocation

During CYs 2004-2006, Mr. Knouse authorized, through employment agreements, three employees to use unspent relocation funds to return repeatedly to their pre-employment residences (Canada and Pennsylvania) at CLC expense. CLC policy for employee relocation is unclear as to whether the expenses related to this travel should have been authorized.

The CLC Rules of Employment, Rule 17, amended September 1, 2005, states:

The Executive Director and professional staff recruited from beyond the Washington metropolitan area shall be reimbursed for expenses incurred as a direct consequence of their relocation to the Washington metropolitan area at the time of appointment, as well as for those incurred at the time of separation from service to return home. Such reimbursements will be up to the limit established by and in accordance with the terms of the Relocation Policy.

In addition, Financial Policies and Procedures, Accounting Policy 5.0 - Employee Relocation and Home Leave, May 1999, states:

Special circumstances requiring special consideration for matters not covered under this policy may be decided from time to time by the Executive Director, but never so as to exceed the total allowable amount from either relocation. The total allowable combined amount for all payments for relocation costs itemized below shall be \$25,000 for each relocation.

The three employment agreements entered into by Mr. Knouse included the following:

- Two employment agreements authorized the Director for Administration, as well as the Publications Coordinator, to draw down half of the remaining portion of relocation funds (\$12,500), after all eligible expenses were satisfied, to travel from Washington, DC to their current residences² (Canada and Pennsylvania, respectively) and return.
- The third employment agreement authorized a Researcher to draw down up to \$6,000 for one roundtrip per month from Washington, DC to the employee's current residence (Canada) for the duration of employment.

CLC policy allows the Executive Director of the CLC Secretariat the latitude to consider special circumstances when authorizing relocation expenses. The travel that Mr. Knouse authorized represented additional employee compensation rather than reimbursement of relocation expenses. The CLC Secretariat had a policy in place that addressed its responsibility to provide professional staff the opportunity to return home periodically. Under CLC's home leave policy, employee home leave was available to the Executive Director and professional staff once for every two-year period of appointment, provided that more than one year of the respective period had been served. Transportation expenses related to the home leave were authorized for the Executive Director, professional staff, and their spouses and dependents. Additionally, two days of paid leave were available for travel time. The additional travel that Mr. Knouse authorized in the three employment agreements did not fall under the category of home leave.

Due to the insufficient relocation policy and procedures, CLC could not effectively ensure that relocation expenditures were appropriate and consistent with its mission. Specifically, we could not determine if the \$12,669 that the three employees used to travel to and from their pre-employment homes was a necessary and reasonable expense.

² Current residence refers to where they lived before locating to Washington, DC.

Staffing

During CYs 2004-2006, the Executive Director Knouse complied with CLC policy when hiring staff to fill vacant positions. However, because CLC policy did not specify the minimum qualifications required for the positions, we were unable to determine if the employees hired were qualified to carry out their responsibilities. We also found that annual employee performance appraisals had not been prepared, as required by CLC policy.

The NAALC Articles 12.2 and 12.3 state the following:

12.2. The Executive Director shall appoint and supervise the staff of the Secretariat, regulate their powers and duties and fix their remuneration in accordance with general standards to be established by the Council.

12.3 The number of staff positions shall initially be set at 15 and may be changed thereafter by the Council.

In 2004, the CLC Secretariat consisted of the following 15 authorized positions: Executive Director, Director of Administration, Director of Research, Publications Coordinator, Labor/Employment Advisor, Financial Officer, Information Management Coordinator, Employment Relations, Labor Economist (two positions), Research Editor, Executive Assistant, Administrative Assistant (two positions), and Receptionist. See Exhibit 5 for further details.

When Mr. Knouse was appointed as Executive Director of the CLC Secretariat in August 2004, 5 of the 15 CLC Secretariat positions were vacant. Mr. Knouse filled three of the vacant positions (Director for Administration, Publications Coordinator, and Administrative Assistant) by the end of 2004. The Director of Research and the Research Editor positions were filled in 2005.

The CLC Rules of Employment, Amended September 1, 2005, Rule 14, states:

Subject to Rule 15, the Executive Director shall appoint and supervise the staff and regulate their powers and duties in accordance with the following general standards:

- (a) staff shall be appointed and retained, and their conditions of employment shall be determined strictly on the basis of efficiency, competence and integrity . . .
- (f) any further general standards for the selection of staff as may be established by the Council, as included in Annex A.

Annex A of the CLC Rules of Employment states, in part, that the Executive Director will prepare a job description for each vacant position, determine the salary range and establish a deadline for applications that provides the Parties with sufficient time to propose candidates. However, Annex A does not require the Executive Director to establish the minimum qualifications needed to carry out the duties detailed in the job description.

CLC Rule 15, Council Oversight of Staff Appointments, states:

The Executive Director shall inform the Council of all appointments 3 weeks prior to making a formal offer of employment. The Council may, within 3 weeks of receiving notification from the Executive Director, decide, by a two-thirds vote, to reject any appointment that does not meet the general standards set out in Rule 14.

Mr. Knouse complied with the CLC Rules of Employment when hiring CLC staff to fill the vacancies for Director for Administration, Director for Research, Publications Coordinator, and Research Editor. CLC Secretariat officials were unable to provide the resume of the Administrative Assistant hired in September 2004. The CLC Rules of Employment did not require the Executive Director to identify the minimum qualifications required for any of these positions. Consequently, we could not determine whether the employees Mr. Knouse hired were qualified to perform the duties of their respective positions. However, our review of the employees' resumes showed they had relevant work experience for their respective positions.

We also found that, during Mr. Knouse's tenure as Executive Director of the CLC Secretariat, employee performance appraisals were not prepared, as required.

Rule 24, Rules of Employment, of the Commission for Labor Cooperation, amended September 1, 2005, states:

The Executive Director is responsible for ensuring that staff receive annual performance appraisals.

Annual appraisals serve to document and provide a permanent record of employee performance by highlighting specific accomplishments during a specified period. We could not determine why Mr. Knouse did not comply with CLC policy and ensure that staff received annual performance appraisals. Nevertheless, without employee performance appraisals, we could not identify specific staff accomplishments and determine whether employee performance activities supported the CLC mission.

In addition to its own staff, the CLC Secretariat also used contractors as research assistants and interns. These contractors primarily assisted with the development and completion of CLC research projects. The CLC Secretariat used three research assistants and interns in 2004, three in 2005, and two in 2006. CLC Secretariat officials provided documentation of qualifications for just two of the research assistants. Our

review of the two resumes showed that the contractors had relevant educational background and language skills for their positions.

CLC Secretariat officials did not provide any documentation of specific duties assigned to the research assistants and interns. As a result, we were unable to determine whether the research assistants and interns were used in a manner that supported the CLC mission.

Ministerial Council Oversight

The CLC is formed of a Council of Ministers (the Ministerial Council), a cabinet-level body in charge of policy setting and decision making, consisting of the labor minister from Canada and the labor secretaries from Mexico and the United States, and a tri-national Secretariat that provides support to the Ministerial Council and to the independent Evaluation Committees of Experts and Arbitral Panels the Ministerial Council may establish. The CLC works closely with the National Administrative Offices (NAOs) created by each government within their own labor ministry to implement the NAALC. The NAOs provide administrative/advisory support to both the CLC and the Ministerial Council. In the US Department of Labor (DOL), the Bureau of International Labor Affairs (ILAB), Office of Trade and Labor Affairs (OTLA), functions as the National Administrative Office.

Rule 5.6, CLC Financial Rules, amended September 1, 2005, states:

The Executive Director shall provide to the Ministerial Council, on a quarterly basis, interim financial reports including financial statements and an analysis of budgetary variances during the preceding quarter. The Executive Director shall also include a report on progress in addressing all internal control weaknesses or other significant observations, if any, made by the external auditors in their report for the previous year. If a significant budgetary variance arises, the Executive Director shall provide an explanation of this variance and shall propose a reallocation of funds for approval by the Ministerial Council if a reallocation is deemed necessary. The reallocation shall be disclosed in an explanatory note attached to the quarterly financial reports.

During CYs 2004-2006, the quarterly interim financial reports that Executive Director Knouse submitted to the Ministerial Council provided only summary financial data and, therefore, did not provide sufficient details for adequate Ministerial Council review of CLC Secretariat activities. Further, the quarterly reports were not provided for the last 2 quarters of 2004 and 2005.

The interim financial reports provided to the Ministerial Council did not include progress in addressing internal control weaknesses and other significant external auditor observations. The weaknesses identified by the external auditors included the lack of a formal process to review journal entries made to CLC accounts and the need for a

formal policy for recording items discussed during formal annual meetings of the Ministerial Council and Council Designees.

Adequate and consistent Ministerial Council oversight is an essential control for ensuring that CLC Secretariat activities and expenditures support the CLC mission and comply with established policies and procedures. The CLC Secretariat interim financial report is the primary mechanism for communicating CLC financial and budgetary information to the Ministerial Council. Accurate, complete and timely submitted interim financial reports may have alerted Council members to the previously cited problems with procurement, travel, hospitality/representation and relocation expenditures.

Recommendations

Given that DOL appropriated funds are used to support the mission of the CLC, we recommend that the Secretary of Labor ask the Ministerial Council to take the following actions to improve internal controls at the CLC:

1. Develop and implement sufficient internal controls to ensure all procurement actions are adequately documented, reviewed and approved from award through contract execution and completion. This documentation should include copies of competing bids, or, if not competed, a copy of the rationale for not obtaining bids, and a copy of the executed contract and any contract modifications, as well as all deliverables received.
2. Enforce the existing requirement regarding documentation to be submitted with travel voucher claims before approval for payment and designate responsibilities for approval of travel and related voucher claims made by the Executive Director.
3. Revise CLC Rules of Employment, Rule 26 to include guidelines on hospitality and representation activities that specify which expenditures are, and which expenditures are not, eligible for funding.
4. Evaluate and revise Accounting Policy 5.0 (Employee Relocation and Home Leave) to define "special circumstances" to ensure relocation funds are used only for relocation purposes and not for purposes unrelated to relocation.
5. Amend Annex A of the CLC Employment Rules to require the Executive Director to prepare not only a job description for each vacant position, but to also specify the minimum qualifications needed to carry out the duties detailed in the job description.
6. Amend the CLC Temporary Research Assistant and Intern Policies to require the CLC Secretariat to maintain documentation supporting the qualifications of those contractors and the work they perform.

7. Enforce the existing requirement that the Secretariat Executive Director ensure that employees receive annual performance appraisals.
8. Enforce the existing requirement that the Secretariat Executive Director provide quarterly interim financial reports on a timely basis.
9. Require a detailed accounting of procurement, travel, hospitality/representation and relocation activities and expenses in the interim financial reports.
10. Take a more proactive role in monitoring CLC Secretariat activities and expenditures.

Agency Response

In response to the draft report, the Deputy Under Secretary for International Affairs stated that ILAB fully concurs with the audit findings and corresponding recommendations for improving the internal controls over the CLC Secretariat. She further stated that ILAB will work closely with its counterparts in Canada and Mexico to undertake the actions recommended in this report.

The Deputy Under Secretary also cited a number of actions the CLC has taken to address issues of Secretariat management, accountability, and oversight. These actions included: authorizing an independent audit of the Secretariat's internal controls conducted as part of its 2006 financial statement audit; freezing the Secretariat's budgetary expenditures and staffing actions in September 2006 pending further notification from the Council; appointing a new Director of Administration at the Secretariat to focus on reviewing and improving financial and administrative controls; and increasing the involvement of the Council Designees in addressing Secretariat financial and administrative matters.

The Deputy Under Secretary also stated that the State Department oversees waiver of immunity requests involving U.S. employees of international organizations, and ILAB has referred the OIG's waiver request to the U.S. State Department for its advice and recommendations. The Deputy Under Secretary noted that the DOL Office of the Solicitor had informed OIG of the referral and provided OIG with a contact at the State Department in case OIG wanted to discuss the waiver request with the State Department.

See Appendix D for ILAB's complete response to our draft report.

OIG Conclusion

Based on the actions that the Bureau of International Labor Affairs states the CLC has taken and plans to take, we consider the recommendations resolved.

The OIG contacted CLC on March 14, 2007, requesting a waiver of immunity for Mr. Knouse, pursuant to the CLC's by-laws. Approximately four months later, after two follow-up requests regarding the status of our waiver request, the DOL Office of the Solicitor advised us that it had raised our request with the U.S. State Department. On August 29, 2007, the Office of the Solicitor suggested that the OIG follow-up with the State Department directly. The OIG's request was made directly to the CLC, and we do not believe it is appropriate or necessary for the OIG to contact the State Department directly regarding this issue.

Objective 2 - What contributed to the decline in the CLC General Fund balance?

The CLC General Fund balance declined from \$1,987,691 as of January 1, 2004, to \$606,916 as of December 31, 2006. The decline was primarily due to assessment credits granted to the funding countries, in accordance with CLC policy. CLC Executive Secretariat spending remained relatively level and nominally affected the General Fund balance.

The CLC is funded by equal contributions from Canada, Mexico and the United States.³ If the Commission has an excess surplus of funds available at the end of 2 consecutive years, the CLC Financial Rules, Rule 6.7, allows the Council to reduce the next year's contribution. An excess surplus is that portion of the year-end balance remaining in the General Fund that exceeds 10 percent of the Parties' annual contributions.

Although the CLC General Fund balance had declined during the 2004 through 2006 period, the CLC continued to maintain an excess surplus in its General Fund, as shown below:

General Fund Balance, as of 12/31/2006:	\$606,916
Less: 10 percent of Parties' 2006 assessment:	<210,000>
Excess Surplus, as of 12/31/2006:	<u>\$396,916</u>

CLC Financial Rules, Rule 6.7 states:

Where the Commission has an excess surplus at the end of 2 consecutive financial years, the Council shall credit 50 percent of the excess surplus toward the assessed contributions of the Parties for the subsequent financial year in the same proportion as that in which the assessed contributions were received. Should this occur, the Executive Director shall adjust assessed contributions for the subsequent financial year to reflect such credit. For the remaining 50 percent of the excess surplus, the Executive Director shall present to the Council a plan to utilize such funds to further the work of the Commission. If no agreement is reached

³ CLC Financial Rules, Rule 6.1 states: Each party shall contribute an equal share of the annual budget of the Commission, subject to the availability of appropriated funds in accordance with the Party's legal procedures. No Party shall be obligated to pay more than any other Party in respect of an annual budget.

regarding the plans presented by the Executive Director to utilize such funds, the Council shall also credit that portion of the excess surplus toward the assessed contributions of the Parties for the subsequent financial year in the same proportion as that in which the assessed contributions were received. An excess surplus is that portion of the year-end balance remaining in the General Fund that exceeds 10 percent of the assessed contributions made by the Parties in a financial year.

The general fund balance had an excess surplus at the end of 2003; consequently, the three funding countries received a combined credit of \$450,000 (\$150,000 each) that was applied to their 2004 assessment. Similarly, in 2006, the three funding countries received a combined credit of \$516,336 (\$172,112 each). The CLC General Fund balance declined from \$1,987,691, as of January 1, 2004, to \$606,916, as of December 31, 2006. The \$1,380,775 decline resulted primarily from the \$966,336 in assessment credits granted to the three funding countries, in accordance with CLC policy.

CLC spending remained relatively level during Calendar Years 2003, 2004, 2005 and 2006. The CLC spent \$2.1 million in 2003, \$2.4 million in 2004, \$2.1 million in 2005, and \$2.2 million in 2006. In 2004, the Secretariat hired employees to fill vacant positions, as well as relocated employees leaving the Secretariat. This caused an increase in salaries and benefits as well as relocation expenses. Also, travel expenses increased in 2004 as a result of conferences the CLC hosted in Cancun, Mexico and Washington, DC. The increased spending in 2006 resulted primarily from increases in accounting and legal services costs.

As stated elsewhere in this report, documentation of CLC Secretariat expenditures was not sufficient for us to determine whether the increased expenditures supported the CLC mission.

See Exhibit 5 for a detailed breakdown of country contributions, expenditures, and beginning and ending General Fund balances.



Elliot P. Lewis

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Exhibits

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Exhibit 1: Contracts Awarded, CYs 2004-2006

	<u>Vendor</u>	<u>Contract Amount</u>	<u>Evidence Provided that Required Competing Bids Were Obtained?</u>	<u>Date Awarded</u>	<u>Type of Contract (from General Ledger)</u>	<u>Summary of Contracted Services</u>
1	B. Goldstein	\$35,000	No	10/13/2004	Research	Research on migrant law.
2	AKOYA	\$35,000	No	10/26/2004	Research	Strategic research/communications plan for execution of project initiatives.
3	R. Rabinowitz	\$35,000	No	11/18/2004	Research	Research on occupational illnesses, injuries, health & workers' compensation law.
4	DJ Wachter Inc.	\$35,772 ⁴	No	Subject to renewal on June 1 each year from 5/9/2003	Accounting & Audit Services	Monthly financial reports, maintenance of bank accounts, accounts receivable and payable, payroll records, & assistance in services required of the Financial Officer.
5	L. Pettit	\$11,900	NR	11/10/2004	Research	Develop network of academic & think tank resources that can be tapped to help shape CLC research agenda, partner with CLC in research projects, contract with CLC for research, share data bases with CLC, and serve in advisory capacity with respect to staff selection & development.
6	J. Watts	\$7,500	NR	7/14/2004	Research	Cross-border labor mobility in North America (NA)
7	D. Greschner	\$15,000	No	2/27/2005	Research	Canadian law as it pertains to workplace discrimination and equal pay.
8	D. Boncheva	\$39,000	No	6/6/2005	Research	Development & completion of defined research projects & related matters.
9	S. Ronaghan	\$17,400	No	10/5/2005	Research	Occupational Safety and Health Working Group & related matters.
10	S. Otteman	\$17,400	No	10/18/2005	Research	Edit research papers & other relevant documents of the Secretariat.
11	A. Roberts	\$30,000	No	6/15/2005	Research	Support in translation, design & publication, publication distribution, & general services.
12	DJ Wachter Inc.	\$60,991 ⁵	No	2005	Accounting Auditing Services	Continued from prior year.
13	O. Elm kies	\$39,000	No	6/1/2005	Research	Development & completion of defined research projects & related matters.
14	B. Escobar	\$12,000	NR	2/4/2005	Research	Employment Discrimination & Equal Pay laws.
15	B. Escobar	\$12,000	NR	5/4/2005	Research	Extended from prior contract.
16	R. Ruttenberg	\$7,000	NR	6/16/2005	Research	Occupational Safety & Health in NA.
17	P. Kurzcyn	\$1,000	NR	3/29/2005	Research	No information available.
18	E. Spieler	\$1000	NR	3/14/2005	Research	Review US Chapter of Volume II of the Labor Law Guide Series
19	R. Hinojosa	\$20,000	No	5/12/2006	Research	Labor markets as they pertain to NA competitiveness & labor market independence.
20	J. Goldin	\$86,559 ⁶	No	1/23/2006	Accounting & Auditing Services	General accounting services, including advice & guidance on employment & financial rules.
21	A. Roberts	\$10,000	NR	4/28/2006	Consultant	Extended from prior contract.
	Total 2004-2006	\$528,522				

NR = Competition Not Required

⁴ Amount determined based on review of General Ledger. Contract dictated a daily rate of \$675 and \$75 per hour if day exceeded 8 hours.

⁵ Amount determined based on review of General Ledger. Contract dictated a daily rate of \$750 and \$93.75 per hour if day exceeded 8 hours.

⁶ Amount determined based on review of General Ledger. Contract dictated an hourly rate of \$70 in January 2006, and was increased to \$75 in November 2006.

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**Exhibit 2
Vendors Paid as Contractors, CYs 2004-2006**

	<u>Vendor</u>	<u>Payments Total</u>	<u>Evidence Provided that Required Competing Bids Were Obtained?</u>	<u>Year Awarded</u>	<u>Type of Product/Service based on General Ledger Entry</u>
1	C. Viveros-Cano	\$21,233.34	No	2004	Research Assistant
2	M. Von Bulow	\$940.00	Not Required	2004	Research Contractor
3	C. Sheppard	\$750.00	Not Required	2004	Research Contractor
4	Rodriquez O'Donell Ross	\$4,859.00	Not Required	2004	Legal Services
5	KPMG	\$9,900.00	Not Required	2004	Accounting and Audit Services
6	Klett Rooney Lieber & Schorling	\$4,500.00	Not Required	2004	Legal Services
7	GlobalScope Internet Services	\$1,607.50	Not Required	2004	Internet Services
8	Cable and Wireless USA	\$2,550.00	Not Required	2004	Internet Services
9	SAVVIS, Inc	\$7,790.25	Not Required	2004	Internet Services
10	Micro-Serve Corporation	\$10,487.34	Not Required	2004	Computer & Other Services
11	A. Rapaport	\$1,487.50	Not Required	2004	Research Assistant
12	R. Mendoza	\$875.00	Not Required	2004	Research Assistant
13	D. Miller	\$1,100.00	Not Required	2004	Research Assistant
14	I. Salehyan	\$1,250.00	Not Required	2004	Research Assistant
15	A. Figuero Diseno	\$1,334.20	Not Required	2004	Internet Services
16	KPMG	\$63,803.00	No	2005	Accounting and Auditing Services
17	M. Douglas	\$17,635.80	No	2005	Research Contractor
18	Micro-Serve Corporation	\$14,580.00	No	2005	Computer and other services
19	E. Omeda	\$10,000.00	Not Required	2005	Research Assistant
20	N. Caulfield	\$6,000.00	Not Required	2005	Research Contractor
21	F. Zapata	\$3,000.00	Not Required	2005	Research Contractor
22	Rodriquez O'Donell Ross	\$7,702.50	Not Required	2005	Legal Fees
23	Barg & Henson	\$860.00	Not Required	2005	Accounting and Auditing Services
24	Gelman, Rosenberg	\$6,860.86	Not Required	2005	Accounting and Auditing Services
25	M. Robedo	\$1,400.00	Not Required	2005	Accounting and Auditing Services
26	GlobalScope Internet Services	\$9,397.50	Not Required	2005	Internet Services
27	SAVVIS, Inc	\$8,925.00	Not Required	2005	Internet Services
28	Watson Wyatt & Co.	\$498.29	Not Required	2005	Research Contractor
29	University of California	\$6,000.00	Not Required	2005	Research Contractor
30	C. Viveros-Cano	\$200.00	Not Required	2005	Intern
31	BatesNeimand Inc	\$8,600.00	Not Required	2005	Computer and other services
32	US Internet	\$540.00	Not Required	2005	Computer and other services
33	KPMG	\$62,000.00	No	2006	Accounting and Auditing Services
34	Rodriquez O' Donell Ross	\$74,388.00	No	2006	Legal Services
35	Micro-Serve Corporation	\$13,468.00	No	2006	Computer and Other Services
36	Belmonster LLC	\$13,902.00	No	2006	Computer and Other Services
37	M. Douglas	\$18,278.40	No	2006	Consultant
38	L. Acin	\$26,243.00	No	2006	Consultant
39	ARKTX	\$16,932.00	No	2006	Consultant
40	University of California	\$14,000.00	No	2006	Research Contractor
41	F. Zapata	\$7,000.00	Not Required	2006	Research Contractor

	<u>Vendor</u>	<u>Payments Total</u>	<u>Evidence Provided that Required Competing Bids Were Obtained?</u>	<u>Year Awarded</u>	<u>Type of Product/Service based on General Ledger Entry</u>
42	M. Robedo	\$250.00	Not Required	2006	Accounting and Auditing Services
43	GlobalScope Internet Services	\$9,252.50	Not Required	2006	Internet Services
44	ITECK Solutions	\$10,650.00	Not Required	2006	Consultant
45	M. Kurtzrock	\$4,550.00	Not Required	2006	Research Assistant
46	Gelman, Rosenberg	\$515.00	Not Required	2006	Accounting and Auditing Services
47	IMB Accounting Services	\$750.00	Not Required	2006	Accounting and Auditing Services
48	Ana Marketing and Mgmt	\$1,650.00	Not Required	2006	Internet Services
49	US Internet	\$702.00	Not Required	2006	Internet Services
	<u>TOTAL 2004 - 06</u>	<u>\$511,198</u>			

Exhibit 3

Travel by CLC Executive Director Knouse, August 2004 – October 2006

Purpose of Travel	Location	Start Date	End Date	Days	Total Cost
Interview at NYU for Dev of Research Network	New York NY	12/9/2004	12/11/2004	3	\$1,380.72
Inauguration of Secretary of State	Austin, TX	3/11/2005	3/12/2005	3	\$1,779.69
Meeting with State representatives	Harrisburg, PA	4/11/2005	4/12/2005	2	\$400.08
Meeting with Governor	Harrisburg, PA	5/4/2005	5/4/2005	1	\$174.47
Meeting with Lt. Governor et al	Harrisburg, PA	5/11/2005	5/11/2005	1	\$174.47
Meetings with State representatives	Harrisburg, PA	5/27/2005	5/27/2005	1	\$174.47
Meeting with State representatives	Harrisburg, PA	6/6/2005	6/6/2005	1.5	\$211.97
Meeting with State representative	Harrisburg, PA	6/20/2005	6/21/2005	2	\$477.13
Meet with VP of Ergonomic & Safety Services Inc.	New Stanton, PA	7/15/2005	7/15/2005	1	\$246.57
Meet with University of Pittsburgh Chancellor & Carnegie Mellon President	Pittsburgh, PA	11/29/2005	11/29/2005	1	\$175.00
Meetings at University of Pennsylvania and Carnegie Mellon	Pittsburgh, PA	12/13/2005	12/14/2005	2	\$517.14
Meeting with State representative	Harrisburg, PA	1/24/2006	1/24/2006	1	\$174.47
Attend/give testimony at Labor & Education Committee Hearing	Harrisburg, PA	4/3/2006	4/4/2006	1.5	\$421.72
Testimony before Labor Relations Committee, PA House of Representatives	Harrisburg, PA	4/18/2006	4/19/2006	2	\$448.48
Attend hearings State Senate of Labor and Industry Committee	Harrisburg, PA	6/27/2006	6/28/2006	2	\$439.25
Meet with Carnegie Mellon and Pittsburgh University officials	Pittsburgh, PA	7/19/2006	7/20/2006	2	\$1,159.29
Hearing, Workforce Development; Meet with CEO, Three Rivers Workforce Investment Board, & Director - Center for Economic Development, Carnegie Mellon	Pittsburgh, PA	8/30/2006	8/31/2006	2	\$348.13
TOTAL					\$8,703.05

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Exhibit 4

CLC Secretariat Staffing

<u>Position</u>	<u>Description</u>
Executive Director	The Executive Director is the principal officer in charge of all aspects of the Secretariat, including appointing the staff of the Secretariat; supervising the staff; regulating their powers and duties; and fixing their remuneration.
Director for Administration	Directs the financial budgetary, administrative, and personnel management operations of the Secretariat.
Director for Research	Directs all labor law and economics research activities of the Secretariat.
Publications Coordinator	Provides administrative and operational support for the publication needs of the Secretariat.
Labor/Employment Advisor	Provides expert advice on labor law matters within the Secretariat.
Labor Economist (2 positions)	Conducts and/or coordinates research and analysis on labor and employment law, labor markets and/or employment relations in North America.
Employment Relations	Conducts and/or coordinates research and analysis on labor and employment law, labor markets and/or employment relations in North America.
Information Management Coordinator	Provides support for all the information, documentation and research needs of the Secretariat.
Research Editor	Conducts and/or coordinates research and analysis on labor and employment law, labor markets and/or employment relations in North America.
Financial Officer	Responsible for the financial operations of the Secretariat.
Executive Assistant	Reports directly and solely to the Executive Director.
Receptionist	Assist in maintaining the Secretariat library. Assist with circulation of relevant publications and other research resources.
Administrative Assistant (2 positions)	Provides administrative support in the area of logistic preparation for events and workshops organized by the Secretariat.

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Exhibit 5

CLC Contributions and Expenditures

	2003	2004	2005	2006
Deferred Assessment (General Fund) as of January 1	\$1,991,023	\$1,987,691	\$1,256,054	\$1,242,671
Contributions for the Year (net of assessment credits)	\$2,100,000	\$1,650,000	\$2,100,000	\$1,583,664
Percent Change in Contributions from Prior Year	-----	-21.43	+27.27	-24.59
Assessment Earned (Amount Spent)	\$2,103,332	\$2,381,637	\$2,113,383	\$2,219,421
Percent Change in Assessment Earned from Prior Year	-----	+13.23	-11.26	+5.02
Deferred Assessment (General Fund) as of December 31	\$1,987,691	\$1,256,054	\$1,242,671	\$606,916
Assessment Received in Advance	\$800,000	\$200,000	\$133,844	\$727,399
Total Deferred Assessment and Assessment Received in Advance, as of December 31	\$2,787,691	\$1,456,054	\$1,376,515	\$1,334,315

Definitions:

Deferred Assessment (General Fund) January 1 – Amount available, beginning of year

Contributions for the Year – Total contributed by all parties, less assessment credits

Assessment Earned – Amount spent for the year

Deferred Assessment (General Fund) December 31 – Amount available, end of year

Assessment Received in Advance – Amount prepaid by a party

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Appendices

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APPENDIX A

Background

The Commission for Labor Cooperation (CLC)

The Commission for Labor Cooperation (CLC) is a tri-national organization created under the North American Agreement on Labor Cooperation (NAALC), is commonly referred to as the labor-side agreement to the North American Free Trade Agreement (NAFTA). The CLC is formed of a Council of Ministers (the Ministerial Council), a cabinet-level body in charge of policy setting and decision making, consisting of the labor minister from Canada and the labor secretaries from the United States Mexico, and a tri-national Secretariat that provides support to the Ministerial Council and to the independent Evaluation Committees of Experts and Arbitral Panels the Ministerial Council may establish under provisions of the Agreement. The CLC works closely with the National Administrative Offices (NAOs) created by each government within their own labor ministry to implement the NAALC. The NAOs provide only administrative/advisory support to both the CLC and the Ministerial Council. In the US Department of Labor (DOL), the Bureau of International Labor Affairs (ILAB), Office of Trade and Labor Affairs (OTLA), functions as the National Administrative Office.

Acting as a single entity, the Ministerial Council oversees the implementation of the NAALC and directs the activities of the Secretariat. The Ministerial Council also promotes international cooperative activities on a broad range of issues involving labor law, labor standards, labor relations, and labor markets. The purpose of the CLC is to conduct research and establish means to protect worker rights and improve labor conditions of the NAFTA parties.

The Secretariat

The Ministerial Council of the Commission is supported by a Secretariat, whose staff is drawn equally from the three NAALC countries. The Secretariat includes labor economists, labor lawyers, and other professionals with experience in labor affairs in the region. These professionals work in the three official languages of the NAALC – English, French, and Spanish – a unique tri-national institution devoted to advancing labor rights and labor standards as an integral part of expanding trade relations.

The Secretariat is headed by an Executive Director, who is chosen by the Ministerial Council for a 3-year term, which may be renewed by the Ministerial Council for one additional 3-year term. The position of Executive Director shall rotate consecutively among nationals of each Party, and the Ministerial Council may remove the Executive Director solely for cause.

The Executive Director appoints and supervises the staff of the Secretariat, regulates their powers and duties, and fixes their remuneration in accordance with general standards to be established by the Ministerial Council. The number of staff positions

was initially set at 15, with the provision that the number may be changed by the Ministerial Council. Located in Washington, DC, the Secretariat undertakes labor-related research and assists the member countries with their cooperative activities.

The North American Agreement on Labor Cooperation (NAALC) and the North American Free Trade Act (NAFTA)

The NAALC is a supplemental agreement to NAFTA that entered into force on January 1, 1994. The objectives of NAALC include improving working conditions and living standards, promoting a set of guiding labor principles, and encouraging cooperation to promote innovation and rising levels of productivity and quality. The NAALC emphasizes cooperation through various means, such as exchanges of information, technical assistance, and consultations, to achieve its objectives. It also promotes compliance and effective enforcement by each party of its labor law through oversight mechanisms.

The NAFTA, implemented on January 1, 1994, is a comprehensive trade agreement that improves virtually all aspects of doing business within North America. The NAFTA eliminates nearly all tariffs between the US and Canada and between the US and Mexico by 2008, and removes many of the non-tariff barriers, such as import licenses, that have helped to exclude US goods from the other two markets, especially Mexico.

The NAFTA ensures that investment will not be coerced by restrictive government policies and that US investors receive treatment equal to domestic investors in Mexico and Canada. At the same time, the extensive easing of cross-border services rules ensures that if US companies do not wish to invest in another country to provide their service, they do not have to.

APPENDIX B

Objectives, Scope, Methodology, and Criteria

Objectives

We performed audit work to answer the following questions:

1. Were CLC internal controls adequate to ensure that the CLC Secretariat activities and expenditures supported its mission?
2. What contributed to the decline in the CLC General Fund balance?

Scope

We conducted audit fieldwork at CLC Headquarters in Washington DC from May through September 2007 and reviewed expenditures and related policies and procedures primarily from 2004 through 2006. While the audit focused on expenditures during the former Executive Director's tenure, August 2004 to October 2006, we also examined CLC records and expenditures from January 2002 to July 2004 for comparison purposes.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Methodology

Expenditures – 2004 to 2006. To determine whether expenditures during Mr. Knouse's tenure as Executive Director of the CLC Secretariat (August 2004 to October 2006) were proper, we reviewed general ledger transactions and available supporting documentation related to the following:

- ❖ Home Leave
- ❖ Educational Allowance
- ❖ Travel
- ❖ Procurement
- ❖ Staff Performance
- ❖ Hospitality Expenses
- ❖ Relocation

We then evaluated these expenditures for compliance with related policies and procedures and relevance to the CLC mission. We also reviewed employment agreements to identify applicable benefits and to ascertain position descriptions for employees hired during the period. In addition, we interviewed CLC employees to obtain an understanding and walk-through of internal controls as well as an explanation of errors and deficiencies identified and how and why certain expenditures were incurred.

Expenditures – 2004 to 2006 vs. 2002 to 2004. To determine whether expenses incurred from August 1, 2004 to October 31, 2006 were comparable to those of the prior director, we reviewed general ledger transactions and supporting documentation for expenses incurred from January 1, 2002 to July 31, 2004 that fell within the following categories:

- ❖ Home Leave
- ❖ Educational Allowance
- ❖ Travel
- ❖ Procurement
- ❖ Staff Performance
- ❖ Hospitality Expenses
- ❖ Relocation

We also tested expenditures to determine compliance with policies and procedures. Finally, we interviewed CLC employees to obtain additional information regarding similarities and differences in expenditures and related activities and to identify possible causes for differences.

General Fund. To determine whether annual country contributions and spending from 2004 through 2006 contributed to the alleged depletion of the General Fund, we reviewed the financial statements and budget information for the period. We also identified the contributions provided by each member country, per the NAALC agreement, and reviewed revenues and expenses incurred to determine year-end balances during the period. In addition, we identified increases in specific expense categories for each year and inquired from the appropriate sources through interviews about the reasons for these increases. Finally, we reviewed policies and procedures regarding the General Fund and determined compliance.

Internal Controls. We used the definition of Internal Controls from the Committee on Sponsoring Organizations of Treadway Commission (COSO), to identify key controls. To determine whether internal controls were adequate, we reviewed the content of written rules, policies and procedures to gain an understanding of day-to-day operations. We interviewed CLC Secretariat staff and conducted a walk-through of CLC accounting and administrative processes to determine the existence and adequacy of internal controls for the following:

- ❖ Home leave
- ❖ Educational Allowance
- ❖ Travel
- ❖ Procurement
- ❖ Staff Performance
- ❖ Hospitality Expenses
- ❖ Relocation

Reliability of Computer-Generated Data. To achieve our objectives we relied on computer-generated data contained in the general ledger. We assessed and conducted sufficient test of the data, and found them to be adequate. Based on these tests, we conclude the data are sufficiently reliable to be used in meeting the assignment objectives. .

Criteria

We identified and used criteria included in the following to perform this audit:

CLC Personnel Rules, Policies, Procedures, and Forms:

Rules of Employment (*amended September 1, 2005*)

- Rule 4 – Authority of the Executive Director
- Rule 5 – Accountability of the Executive Director
- Rule 14 – Staff
- Rule 15 – Council oversight of Staff Appointments
- Rule 16 – Offer of Employment
- Rule 17 – Relocation of Professional Staff and Executive Director
- Rule 19 – Temporary Staff
- Rule 24 – Performance Appraisal
- Rule 26 – Hospitality and Representation
- Rule 30 – Home Leave
- Rule 39 – Official Travel

Relocation and Home Leave Policy (*amended July 12, 1995*)

Temporary Research Assistant Policy (*amended May 2005*)

Financial Rules (*amended September 1, 2005*)

- Rule 2 – Responsibility and Authority
- Rule 5.6 & 45 – Budget and Plan of Activities

- Rule 6 – Contributions available to the Commission
- Rule 6.7 – Contributions available to the Commission
(amended January 1, 2006)
- Rule 8 - Accounts

Financial Policies & Procedures (May 1999)

- Accounting Policy 2.0 – Purchase Authority & Accounts Payable
- Accounting Policy 2.1 – Contracting
- Accounting Policy 2.2 – Service Contracts
- Accounting Policy 4.0 – Business Travel
- Accounting Policy 5.0 – Employee Relocation and Home Leave
- Accounting Policy 8.0 – Accounting Methods
- Accounting Policy 9.0 – Accounting Records

Policies and Procedures for the Council

NAALC Agreement – Part Three – The Commission for Labor Cooperation
(Final Draft dated September 13, 1993)

The CLC Council Resolution 95-5 on Reimbursement of Educational Expenses
(dated April 19, 1995)

Committee on Sponsoring Organizations of Treadway Commission, “Internal Control – Integrated Framework”

Appendix C

Acronyms and Abbreviations

CD	Council Designee
CLC	Commission for Labor Cooperation
DOL	Department of Labor
GAO	Government Accountability Office
ILAB	Bureau of International Labor Affairs
NAALC	North American Agreement on Labor Cooperation
NAFTA	North American Free Trade Agreement
NAO	National Administrative Office
OIG	Office of Inspector General
OTAI	Office of Trade Agreement Implementation
OTLA	Office of Trade and Labor Affairs

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Response to Draft Report

U.S. Department of Labor

Deputy Under Secretary for
International Affairs
Washington, D.C. 20210



APR - 4 2008

INFORMATION

MEMORANDUM FOR ELLIOT P. LEWIS

Assistant Inspector General for Audit

FROM:

CHARLOTTE M. PONTICELLI *cm Ponticelli*
Deputy Under Secretary for International Affairs

SUBJECT:

Response to Draft Audit Report No. 21-08-002-01-070,
“Internal Controls Over Commission for Labor
Cooperation Secretariat Activities Need Strengthening”

Thank you for the opportunity to comment on your draft audit report. The Bureau of International Labor Affairs (ILAB) fully concurs with the audit findings and corresponding recommendations for improving the internal controls over the Secretariat of the Commission for Labor Cooperation (CLC), which was established in 1994 by the North American Agreement on Labor Cooperation (NAALC) between Mexico, Canada, and the United States. As recommended in your report, ILAB will work closely with its counterparts in Canada and Mexico to undertake the actions recommended in your report to improve internal controls at the CLC.

As noted in your report, questions about Secretariat staff activities and use of Department of Labor appropriated funds were first raised in August 2006. Since that time, the CLC Council has taken several steps to address the issues of Secretariat management, accountability, and oversight. I would like to highlight just a few of these activities below:

- On August 24, 2006, the Council requested an independent report on the Secretariat’s internal control procedures to be prepared in conjunction with the audit of 2006 finances. This examination of internal controls—conducted by Williams, Adley & Company—was completed in October 2007. The implementation of recommendations contained in that report, which in many cases mirror those in your report, have been identified by the Council as priority performance objectives for the new Executive Director

who took office in March 2008. Additionally, the Executive Director has been provided with copies of ethics rules and standards of professional conduct from the three NAALC countries, with adherence to these standards stipulated as an ongoing requirement of his employment.

- In September 2006, the Council formally notified Secretariat management that budgetary expenditures and staffing actions—including negotiation of employment and consulting contracts and spending for hospitality or travel—were to be frozen pending further notification from the Council. Since 2006, limited budgetary and staffing actions have been allowed, with increased oversight by the Council.
- In August, 2007, the Council approved the appointment of a new Director of Administration at the Secretariat. As directed by the Council, his primary focus thus far has been reviewing and improving the financial and administrative controls of the organization.
- As designee to represent the United States on the CLC's trilateral governing Council, I have worked closely with my Mexican and Canadian counterparts to address the issues raised in your report. In addition to scheduled meetings and teleconferences of the Council Designees, we have taken advantage of other international sessions—such as meetings of the International Labor Organization and the Inter-American Conference of Ministers of Labor—to discuss improvements to Secretariat management and internal controls. The October 2007 meeting of the Council Designees focused almost exclusively on addressing Secretariat financial and administrative matters.

The findings and recommendations contained in your report were discussed at the March 31, 2008 meeting of the Council Designees in Washington, DC, and the parties agreed to consider an action plan to implement the recommendations by the OIG and the independent auditors at their next meeting. It is important to all three NAALC countries to have a well-managed Secretariat that is able to effectively and efficiently support the Council's efforts to promote cooperative activities and research in the areas of labor standards, labor law, and human resource development in North America. In that context, ILAB is in full agreement with the findings and recommendations contained in your report—as well as those found in the 2007 report of the external auditors—and will work with our counterparts in Canada and Mexico to implement them.

Finally, although ILAB concurs with the report's findings, the suggestion on pages 2 and 6 that CLC ignored the OIG's request for a waiver of Mr. Knouse's diplomatic immunity fails to mention critical information that we had relayed previously to your office. The report should make it clear that my office and the CLC have cooperated fully with the OIG's investigation. As you know, the Department of Labor's Office of the Solicitor consulted with the State Department's Legal Adviser's Office of Diplomatic Law and Litigation, which oversees waiver of immunity requests involving U.S. officers and employees of international organizations in the United States. Pursuant to the advice received from that office, on September 28, 2007, we referred your request for a waiver to the State Department, and requested advice and recommendations on how to properly handle the request consistent with broader U.S. interests. On October 1, 2007, your office was informed of the referral in a letter from Carol De Deo, Deputy Solicitor for National Operations; that letter provided a contact in the Legal Adviser's office in case your office wanted to discuss the waiver request with the State Department.

If you have any questions, please feel free to contact Gregory Schoepfle, Director of the Office of Trade and Labor Affairs, at (202) 693-4887.

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