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Office of Inspector General—Office of Audit

VETERANS EMPLOYMENT AND TRAINING SERVICE



KANSAS' CONTROLS OVER JOBS FOR VETERAN STATE GRANT CONTRACT REPORTING AND MONITORING NEED TO BE STRENGTHENED

This audit was performed by WithumSmith+Brown PC, CPAs, under contract to the Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

Ernest P. Lewis

Assistant Inspector General for Audit

Date Issued: March 31, 2011
Report Number: 04-11-002-02-201

U.S. DEPARTMENT OF LABOR
OFFICE OF INSPECTOR GENERAL
Office of Audit

BRIEFLY...

Highlights of Report Number: 04-11-002-02-201, to the Assistant Secretary of Veterans' Employment and Training Service.

WHY READ THE REPORT

The OIG conducted a performance audit of the Kansas Jobs for Veterans State Grant (JVSG) totaling \$1,610,000 for the Fiscal Year (FY) ended September 30, 2008. The JVSG program assists veterans seeking jobs by funding the Disabled Veterans' Outreach Program (DVOP) Specialists, the Local Veterans' Employment Representatives (LVER), and the Transitioning Assistance Program (TAP) Workshops in the state. DVOP Specialists provide intensive services to meet the employment needs of disabled and other eligible veterans; LVER's engage in outreach efforts to employers and conduct advocacy efforts with hiring executives to increase employment opportunities for veterans; and TAP workshops assist service members and their spouses make the transition to the civilian workplace.

WHY OIG CONDUCTED THE AUDIT

Our audit objectives were to answer the following questions:

1. Did errors occur within the Kansas JVSG FY 2008 financial reports for the DVOP, LVER, and the TAP Workshops?
2. Were the Kansas JVSG's FY 2008 financial reports complete and in accordance with Federal requirements?

The audit covered grant documents, financial and programmatic reports submitted to DOL Veterans' Employment and Training Service (VETS); data available from the Kansas Department of Commerce (DOC), Kansas Workforce Services; relevant legislation; and DOL VETS program letter requirements. The onsite fieldwork included interviews with State employees responsible for program oversight and review of documentation to support our random sample of various budget categories.

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/2011/04-11-002-02-201.pdf>

March 2011

KANSAS' CONTROLS OVER JOBS FOR VETERAN STATE GRANT CONTRACT REPORTING AND MONITORING NEED TO BE STRENGTHENED

WHAT OIG FOUND

The OIG found the Kansas DOC's lack of effective management controls and appropriate supervisory oversight undermined its ability to ensure expenditures were properly reported, recorded, and supported. As a result, Kansas DOC made frequent errors in the financial reports; direct and indirect charges exceeded expenditures per the general ledger; indirect costs were overcharged; general ledger expenditures exceeded program obligation authority in the 4th quarter; and expenditures to the "Other" budget line item could not be supported. Consequently, the financial reports were not complete or in compliance with Federal regulations. These deficiencies resulted in \$167,065 of questioned costs and \$124,086 that may not have been put to best use.

We attribute these deficiencies to the lack of Kansas DOC policies and procedures to ensure proper controls were in place for reporting program expenditures, monitoring obligation authority, retaining supporting documentation, and recording indirect costs.

WHAT OIG RECOMMENDED

We made two recommendations to the Assistant Secretary for Veterans' Employment and Training Service (VETS). In summary, we recommended VETS direct Kansas DOC to develop and implement internal control policies and procedures to improve program management and to ensure that JVSG funds are properly recorded and reported; and to recover unsupported and questioned grant costs.

In response to our draft report, the Assistant Secretary for Veterans' Employment and Training Service agreed with all recommendations. He stated that VETS will require the development of internal control policies and procedures, report within 60 days, and consider recovery of the unsupported and questioned grant costs.

In response to our draft report, the Chief Financial Officer of the Kansas DOC partially agreed to our recommendations. She stated that internal control weaknesses did exist, and certain costs were not supported. However, she stated the agency will be able to provide the necessary documentation to support these costs within the next few weeks.

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Independent Auditor's Report

March 31, 2011

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Assistant Secretary
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U.S. Department of Labor
200 Constitution Avenue, NW
Washington, D.C. 20210

The Department of Labor Veterans' Employment and Training Service (DOL VETS) offers assistance to veterans seeking jobs through the Jobs for Veterans State Grants (JVSG) Program. The purpose of this grant is to fund Disabled Veterans' Outreach Program (DVOP) Specialists, Local Veterans' Employment Representatives (LVER), and Transitioning Assistance Program (TAP) Workshops. WithumSmith+Brown, under contract with the DOL OIG, audited the Kansas JVSG totaling \$1,610,000 for the fiscal year (FY) ended September 30, 2008. This period represents the annual modification to the multi-year grant period ended September 30, 2009.

Our audit objectives were to determine if (1) errors occurred within the Kansas JVSG's FY 2008 financial reports for the DVOP, LVER, and the TAP Workshops, and (2) the Kansas JVSG's FY 2008 financial reports were complete and in accordance with Federal requirements.

The audit included a review of grant documents, financial and programmatic reports submitted to DOL VETS, and data available from the Kansas Department of Commerce (DOC), Kansas Workforce Services, as well as external sources. We also reviewed relevant legislation and DOL VETS program letter requirements for this grant program. The audit included onsite fieldwork at the Kansas DOC. The onsite fieldwork included a review of documentation to support our random sample of various budget categories. The onsite fieldwork also included interviews with various State employees responsible for oversight of the JVSG grant program.

WithumSmith+Brown (WS+B) 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 objectives, scope, methodology, and criteria are detailed in Appendix B.

RESULTS IN BRIEF

The Kansas DOC's lack of effective management controls and appropriate supervisory oversight undermined its ability to ensure expenditures were properly reported, recorded, and supported. As a result, Kansas DOC made frequent errors in the financial reports, general ledger expenditures exceeded program obligation authority, and "Other" budget line item could not be supported. In addition, direct and indirect charges exceeded expenditures per the general ledger (GL) and indirect costs were overcharged by \$14,969. We attribute these deficiencies to the lack of Kansas DOC policies and procedures to ensure proper controls were in place for reporting program expenditures, monitoring obligation authority, retaining supporting documentation, and recording indirect costs. These deficiencies resulted in \$167,065 of questioned costs and \$124,086 that may not have been put to best use.

The Kansas DOC's lack of internal control policies and procedures hampered the grantees ability to provide accurate financial reports in accordance with Federal requirements. Accordingly, financial reports were not complete or in compliance with Federal regulations. For example, indirect costs were improperly calculated and reported, revisions were made to the financial reports without a corresponding correction to the GL, and the financial report program totals did not agree to the GL.

In summary, we recommend the Assistant Secretary for Veterans' Employment and Training Service (1) recover the questioned unsupported other costs of \$152,096 and indirect costs of \$14,969; and (2) direct the Kansas DOC to develop and implement internal control policies and procedures to improve program management and to ensure that JVSG funds are properly recorded and reported.

VETS AND KANSAS DOC RESPONSES

In response to our draft report, the Assistant Secretary for Veterans' Employment and Training Service (VETS) agreed that the grantee exercised a lack of effective management controls and appropriate supervisory oversight. VETS agreed with all recommendations and stated that they will require the Kansas DOC to develop internal control policies and procedures and report within 60 days. VETS will consider recovery of the unsupported and questioned grant costs.

In response to our draft report, the Chief Financial Officer (CFO) of the Kansas DOC partially agreed to our recommendations. The CFO stated that internal control weaknesses did exist, but the Kansas DOC has since implemented substantive and systematic reforms designed to improve its processes. The Kansas DOC CFO also agreed with our finding that certain costs were unsupported; however, she stated the agency will be able to provide the required documentation within the next few weeks.

The Assistant Secretary's and Chief Financial Officers entire responses are contained in Appendix D.

The responses did not change the audit's Findings and Recommendations. Continuous communication was maintained throughout the audit concerning the issues encountered, providing ample time for the Kansas DOC to provide documentation supporting the questioned costs.

RESULTS AND FINDINGS

Objective 1 — Did errors occur within the Kansas JVSG for FY 2008 financial reports for the DVOP, LVER, and TAP Workshops?

The Kansas DOC's lack of effective management controls and appropriate supervisory oversight undermined its ability to ensure expenditures were properly reported, recorded, and supported.

Per 29 Code of Federal Regulation (CFR) §97.20, states must maintain effective control and accountability for grant assets (i.e. cash). Additionally, procedures must be established to enable states to prepare complete and accurate reports to DOL VETS.

Finding 1 — Weak JVSG Management Controls Resulted in Errors in Financial Reporting and Recording

Lack of effective management controls and appropriate supervisory review resulted in unsupported cost for about \$276,182 of the "Other" budget category. Specifically, we question \$152,096 related to deficiencies in 135 sampled transactions and calculate \$124,086 in related funds that may not have been put to best use. In a separate issue, we question \$14,969 of costs related to an overcharge of indirect costs.

Kansas DOC did not establish policies and procedures to enable management to ensure the preparation of complete and accurate reports. In addition to the questioned costs, we found the TAP exceeded the program obligation authority, and the 5th quarter grant reports did not agree to the GL due to the lack of effective management controls and appropriate supervisory oversight of the grant.

Based on our testing of a statistical sample of transactions, we estimate with a 95 percent confidence level that unsupported costs were between \$246,078 and \$300,656.

The unbiased point estimate is \$273,367. In addition, we identified \$2,815 of cost related to the TAP program that was also unsupported in the account balance. Therefore the total unsupported cost amounted to about \$276,182. Our audit included a random selection of 158 transactions totaling \$183,069 from the “Other” budget category totaling \$325,937. The category includes charges for postage, telephone, printing, advertising, rent, equipment rental, car repair, honorariums, data processing, professional fees, electricity, gas, water, sewage, computer system support, and building improvements.

Our review of the transactions found that approximately 135 of the 158 transactions (or 85 percent) could not be properly supported. Specifically, \$152,096 of the \$183,069 (or 83 percent) was charged using an allocation methodology based on estimated employee hours worked by program. However, the auditee was unable to provide support for the allocation percentages applied during our audit period; therefore, we were unable to substantiate the amounts charged to the “Other” line item for the DVOP, LVER, and TAP. As a result, we question \$152,096 charged to the grant program. In addition, based on the unsupported cost of \$276,182 we calculate about \$124,086 (\$276,182 minus the \$152,096 questioned cost) of the funds reported as “Other” may not have been put to best use.

Indirect costs were recorded biweekly and were based on the payroll. At the end of a payroll cycle, when all payroll transactions had been recorded in the GL, the accountant responsible for recording indirect costs downloaded the payroll information from the Statewide Human Resource and Payroll Project (SHARP) system. Per the indirect cost rate negotiation agreement, the direct cost base was direct salary and fringe benefits. The accountant applied the applicable rate against the applicable salaries and fringes by fund and created a Transfer of Funds form to document the accounting entry. The accountant then posted the entry to record the indirect cost funds. The accountant responsible for recording the indirect cost during our grant period had since left the agency, and there were no written policies and procedures documenting this process.

We noted that the provisional indirect cost rate applicable to the Federal fiscal grant year was 16.89%. Documentation to support the final negotiated rate could not be provided. Our review of the indirect cost rate by program and quarter noted that rates recorded in the GL varied from 5% to 456%.

Because documentation to support the final negotiated rate could not be provided, using the provisional rate of 16.89%, we recalculated the indirect cost applied to the salary and fringe benefit base of \$1,039,896. The calculation resulted in indirect costs of \$175,638, which was \$14,969 less than the \$190,607 recorded in the GL (see Exhibit 1, Revised Table).

In addition, requested revisions made to the reports based on questions and concerns raised by DOL VETS resulted in amounts being changed in the reports without a corresponding correction to the GL. The lack of confidence in the integrity of the

information reported subsequently resulted in DOL VETS requesting an OIG audit of the grant funds.

Every quarter, the DOL VETS provided a Notification of Obligation Authority (NOA) for the DVOP, LVER, and TAP to the State. The notification represented the total authorized authority available for obligation, and obligations cannot exceed the cumulative total. Kansas DOC's Fiscal Department did not have written policies and procedures in place to ensure cumulative grant obligations did not exceed the NOA.

WS+B compared the total authority per the NOA by program and quarter to the total expenditures per the GL by program and quarter. We found that the total expenditures for the TAP program exceeded the authority in the 4th quarter by approximately \$29,500.

We found that the total costs reported on the FY 2008 5th quarter and the FY 2009 1st quarter reports agreed to the total costs recorded in the GL. However, we found that the 5th quarter GL per the spreadsheet initially provided for audit did not agree to the "revised" 5th quarter financial reports.¹ As a result, costs per the financial reports exceeded the GL by approximately \$40,000 (see Exhibit 1, Original Table).

Kansas DOC's Fiscal Department allocated direct "Other" costs based on hours worked on particular projects in an effort to equitably charge certain expenditures to the proper funding stream. The allocation percentages were adjusted twice each year. To calculate the percentages, each department submitted the estimated hours employees worked by program. Once the estimates were received, they were input into a spreadsheet by department, and a pro rata percentage of costs for each program was calculated. Kansas DOC's Fiscal Department did not have written policies and procedures documenting the allocation methodology nor could the State provide support for the allocation calculations applied during our audit period.

Objective 2 — Were the Kansas JVSG FY 2008 financial reports complete and in accordance with Federal requirements?

The Kansas DOC's lack of internal control policies and procedures hampered the grantee's ability to provide accurate financial reports in accordance with Federal requirements.

Per 20 CFR §658.601, each State Administrator should, to the maximum extent feasible, ensure the accuracy of the data. Furthermore, the State agency must establish and maintain a data validation system that accurately reflects the accomplished activities and provides actual expenditure data, in accordance with 29 CFR §97.20.

¹Kansas DOC filed two versions of 5th quarter financial reports. The spreadsheet we were provided for audit tied to the first set of financial reports submitted.

Finding 2 — Internal Control Deficiencies Resulted in Incomplete Financial Reporting

The lack of proper supervisory review and policies and procedures defining the Kansas DOC's reporting process resulted in errors in the financial reports. We found that internal control deficiencies resulted in reporting mistakes, which caused a high error rate in the accuracy of the reported data. The supervisory review process both in the Fiscal Department and the Workforce Development Office were not adequate to ensure errors were identified and corrected before the reports were submitted. Specifically, our audit of the FY 2008 financial reports noted that the Federal Financial Report (FFR) and Expenditure Detail Reports (EDR) were not complete or in accordance with Federal requirements. As a result of the significant internal control deficiencies, the state's ability to comply with Federal regulations was impaired.

Because DOL VETS could not determine the accuracy of the reports, they were unable to certify that the funds were spent in accordance with Federal guidelines. For example, improper indirect costs were charged to the grant throughout the year. The TAP incurred \$48,052 of indirect costs even though the total salary and fringe benefit costs for the program were only \$40,516 (see Table 1), resulting in an effective indirect cost rate of 118.60%². It was not until DOL VETS identified the error in the quarterly financial report that the 5th quarter report was corrected (see Exhibit 1, Revised Table).

Furthermore, reported charges for the TAP, DVOP, and LVER totaled \$55,000, \$894,000, and \$661,000, respectively. Our audit of the expenditures per the GL found that the recorded charges for the TAP, DVOP, and LVER were \$94,848, \$814,436, and \$660,718, respectively. As a result, Kansas DOC had under reported TAP by \$39,848, over reported DVOP by \$79,564, and over reported LVER \$282 (see Table 1). It was not until DOL VETS identified the error in the quarterly financial report that the 5th quarter report was corrected (see Exhibit 1, Revised Table).

²The provisional indirect cost rate for the period was 16.89%.

Table No. 1: Comparison of Original GL to EDR Report by Program				
Budget Line Item	TAP	DVOP	LVER	Total
Per GL:				
Salaries	\$ 35,569	\$ 435,224	\$ 338,756	\$ 809,549
Fringe	4,947	120,346	75,726	201,019
Total Salary and Fringe	40,516	555,570	414,482	1,010,568
Travel	2,650	17,837	17,633	38,120
Supplies	443	7,602	7,611	15,656
Other	3,187	160,914	161,836	325,937
Total Direct Costs	46,796	741,923	601,562	1,390,281
Indirect Costs	48,052	72,513	59,156	179,721
Grant Total	94,848	814,436	660,718	1,570,002
Per EDR:				
Direct Costs	47,138	754,808	617,446	1,419,392
Indirect Costs	7,862	139,192	43,554	190,608
Total Costs Reported to DOL	55,000	894,000	661,000	1,610,000
(Over)/Under Reported	39,848	(79,564)	(282)	(39,998)

RECOMMENDATIONS

We recommend the Assistant Secretary for Veterans' Employment and Training Service to:

1. Recover the questioned unsupported other costs of \$152,096 and indirect costs of \$14,969.
2. Direct Kansas DOC to develop and implement internal control policies and procedures to improve program management and to ensure that JVSG funds are properly recorded and reported.

We appreciate the cooperation and courtesies that Kansas DOC and DOL VETS personnel extended to WithumSmith+Brown during this audit.

WithumSmith+Brown, PC

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Exhibits

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Exhibit 1

Comparison of General Ledger to Electronic Data Report by Quarter

Original Table:

Budget Line	5th FY07	1st	2nd	3rd	4th	5th FY08	Total
Salaries	\$ (195,644)	\$ 222,381	\$ 166,217	\$ 197,710	\$ 181,543	\$ 237,343	\$ 809,549
Fringe	-	55,039	48,333	49,134	48,513	-	201,019
Subtotal	(195,644)	277,420	214,550	246,844	230,056	237,343	1,010,568
Travel	-	11,148	13,688	7,476	5,808	-	38,120
Supplies	-	1,896	4,358	4,244	5,158	-	15,656
Other	-	114,169	90,368	71,741	49,659	-	325,937
Total Direct	(195,644)	404,633	322,964	330,305	290,681	237,343	1,390,281
Indirect Costs	(28,112)	44,360	32,078	48,399	64,308	18,687	179,720
Grand Total	(223,756)	448,993	355,042	378,704	354,989	256,030	1,570,001
EDR Report Total	(223,756)	448,994	355,042	378,486	354,989	296,245	1,610,000
Difference	-	1	-	(218)	-	40,215	39,998

Revised Table:

Budget Line	5th FY07	1st	2nd	3rd	4th	5th FY08	Total
Salaries	\$ (195,644)	\$ 222,381	\$ 166,217	\$ 197,710	\$ 181,543	\$ 266,670	\$ 838,877
Fringe	-	55,039	48,333	49,134	48,513	-	201,019
Subtotal	(195,644)	277,420	214,550	246,844	230,056	266,670	1,039,896
Travel	-	11,148	13,688	7,476	5,808	-	38,120
Supplies	-	1,896	4,358	4,244	5,158	-	15,656
Other	-	114,169	90,368	71,741	49,659	-	325,937
Total Direct	(195,644)	404,633	322,964	330,305	290,681	266,670	1,419,609
Indirect Costs	(28,112)	44,360	32,078	48,399	64,308	29,575	190,607
Grand Total	(223,756)	448,993	355,042	378,704	354,989	296,244	1,610,216
EDR Report Total	(223,756)	448,994	355,042	378,486	354,989	296,244	1,610,000
Difference	-	1	-	(218)	-	-	(217)

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Appendices

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Background

The DOL VETS offers assistance to veterans seeking jobs through the JVSG program. In accordance with 38 USC Section 4102A(b)(5) and 4102A(c), the Assistant Secretary for Veterans' Employment and Training Service makes grant funds available for use in each State to support the JVSG. These grants fund state employees that provide outreach and assistance to veterans seeking employment under the following programs:

- DVOP Specialists,
- LVER, and
- TAP Workshops.

DVOP specialists provide intensive services to meet the employment needs of disabled veterans and other eligible veterans, with the maximum emphasis directed toward serving those who are economically or educationally disadvantaged, including homeless veterans, and veterans with barriers to employment. DVOP specialists are actively involved in outreach efforts to increase program participation, which may include but should not be limited to: outplacement in Department of Veterans' Affairs (DVA) Vocational Rehabilitation and Employment Program offices; DVA Medical Centers; routine site visits to Veterans' Service Organization meetings; Native American Trust Territories; Military installations; and other areas of known concentrations of veterans or transitioning service members.

LVER's conduct outreach to employers and engage in advocacy efforts with hiring executives to increase employment opportunities for veterans, encourage the hiring of disabled veterans, and generally assist veterans to gain and retain employment. LVER staff conducts seminars for employers and job search workshops for veterans seeking employment, and facilitate priority of service in regard to employment, training, and placement services furnished to veterans by all staff of the employment service delivery system.

To meet the specific needs of veterans, particularly veterans with barriers to employment, DVOP and LVER staff are thoroughly familiar with the full range of job development services and training programs available at the State Workforce Agency One-Stop Career Centers and Department of Veterans' Affairs Vocational Rehabilitation and Employment Program locations.

TAP employment workshops, mandated by 10 USC Section 1144, are typically 2 to 2 ½ days and focus on job-search preparation and assistance. The workshops were established to assist service members and their spouses make the transition to the civilian workplace.

To monitor the progress in each of these programs, DOL VETS reviews the quarterly and fiscal FFR and EDR, program activity (Manager's Report on Services to Veterans), and outcome (Program Activity and Outcome Report and Technical Performance

Narrative) reports from the grantee. The quarterly reporting for the JVSG grant consists of five quarters. Per the Veterans' Program Letters (VPL) 02-08 and 07-05, quarterly reports are required for each of the four Federal fiscal quarters. In addition, states are allowed to submit 5th quarter reports for JVSG funds not obligated by September 30th. The 5th quarter consists of funds not obligated or expended that can be carried into the 1st quarter of the next fiscal year. DOL VETS encourages states to carry this funding forward and use it on a first-in first-out (FIFO) basis for staff salaries and expenses.

The State of Kansas, Workforce Services, which runs the daily operation of the JVSG grant, is under the Kansas DOC. Expenditure documentation is provided to the Fiscal Department for processing and recording into the State Accounting and Reporting System (STARS).

To complete the first four quarterly reports, the State Federal Grants Program Manager requests a download of expenditures from the fiscal group. The expenditures are analyzed by program and budget line item to identify anomalies. If the data appears proper, the financial reports are completed. The completed reports are given to the State VETS Program Coordinator who reviews the reports and provides the programmatic information. The completed package is provided to the CFO for signature. The signed reports are forwarded to DOL VETS. Questions or concerns about the reports by DOL VETS are emailed to the State Program Manager, and report revisions are made as necessary.

To apply the 5th quarter expenditures, Kansas Workforce Services determines the remaining funds in each program. The 1st quarter expenditures of the next Federal fiscal year are downloaded into a spreadsheet. The 1st quarter is split between the two grant years in this multi-year grant. The unexpended funds for the 5th quarter are reported separately on 5th quarter reports, and the remaining funds are reported as the 1st quarter expenditures of the subsequent grant year.

Appendix B

Objectives, Scope, Methodology, and Criteria

Objectives

Our audit objectives were to determine if:

- (1) Errors occurred within the Kansas JVSG for FY 2008 financial reports for the DVOP, LVER, and TAP Workshops.
- (2) The Kansas JVSG FY 2008 financial reports were complete and in accordance with Federal requirements.

Scope

WithumSmith+Brown, under contract with the DOL OIG, audited the Kansas JVSG totaling \$1,610,000 for the year ended September 30, 2008. This period represents the annual modification to the multi-year grant period ended September 30, 2009. 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. The audit included onsite fieldwork at the Kansas DOC Office in Topeka, Kansas.

A performance audit includes an understanding of internal controls considered significant to the audit objective and testing compliance with significant laws, regulations, and other requirements. In planning and performing our audit, we considered internal controls significant to the audit were properly designed and placed in operation. This included reviewing DOL's policies and procedures for administering the JVSG program and reviewing Kansas DOC's policies and procedures for the JVSG program. We confirmed our understanding of these controls and procedures through interviews and documentation review.

In performing the audit, we evaluated internal control used by Kansas DOC for reasonable assurance that the reporting of JVSG program was administered and conducted in accordance with Federal and internal requirements. Our consideration of Kansas DOC's internal controls for administering and conducting JVSG program would not necessarily disclose all matters that might be reportable conditions. Because of inherent limitation in internal controls, misstatements, losses, or noncompliance may nevertheless occur and may not be detected.

Our audit focused on the Kansas JVSG financial reporting for FY 2008. The audit included a review of grant documents, financial and programmatic reports submitted to VETS, Employment and Training Programs (ETP) Division, and data available from the

Kansas DOC, Kansas Workforce Services, as well as external sources. The audit also included a review of the quarterly financial reports submitted for FY 2008, with supporting documentation and interviews conducted with various employees at the Kansas DOC and Workforce Services.

Methodology

To accomplish our audit objectives, we obtained an understanding of the JVSG program reporting requirements. We conducted interviews with DOL VETS officials from the Office of Workforce Investment, Office of Policy, Development Research, and the Office of Regional Management to gain an understanding of the grant award and monitoring processes. Policies and procedures followed by DOL VETS during the grant selection process were reviewed.

To gain a better understanding of the reporting process, supporting ledgers and subsystems, we interviewed the Federal Grants Program Manager and the Chief Financial Officer. We obtained the quarterly financial reports (FFR and EDR) submitted for FY 2008 and the GL detail for FY 2008. We performed a data reliability assessment to ensure we had complete and accurate data. To determine whether the data was reliable to select our sample, we reconciled the financial reports to each other and to the GL. We concluded the data to be sufficiently reliable for our purposes.

For further analysis, we randomly sampled 30 of the 88 employee files and related labor allocation documentation for the payroll periods ending January 26, 2008, and August 23, 2008. We reviewed the employee files and time records to ensure costs were allowable and properly supported. These samples were across the three grant programs included in our audit. Based on the sample, we found a zero percent error rate and stopped our sampling. We would expect that, had we continued our sample, we would have found a similar error rate throughout the universe.

We developed a stratified random sampling plan to test the 504 transactions included in the budget under “Other,” we randomly sampled 158 transactions. We reviewed documentation supporting the transactions to ensure costs were allowable and properly supported. We found 135 of the 158 transactions tested were allocated transactions and were not properly supported. We used variable sampling at a 95 percent confidence level to estimate the monetary impact of unsupported transactions. The results of our tests of transactions were projected to the respective universe.

Examples of the audit results and the relevance of the tests to the audits’ objectives are provided in the body of the report.

Criteria

We used the following criteria to accomplish our audit:

- Office of Management and Budget (OMB) Circular A-102 – Grants and Cooperative Agreements with State and Local Governments;
- 2 CFR Part 225 Circular A-87 – Cost Principles for State, Local and Indian Tribal Governments; and
- JVSG Program Specific Documents, including:
 - Title 38, USC Chapter 41 – Job Counseling, Training, and Placement for Veterans;
 - Grant document;
 - Special Grant Provisions for Jobs for Veterans State Grants, dated February 1, 2006;
 - Veterans’ Program Letter No. 02-08 – Jobs for Veterans State Grant Reporting; and
 - Veterans’ Program Letter No. 05-05 – Direct and Indirect Charges to the Fiscal Year 2005-2009 Jobs for Veterans State Grants.

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Appendix C

Acronyms and Abbreviations

CFO	Chief Financial Officer
DOC	Department of Commerce
DOL	Department of Labor
DOL VETS	Department of Labor Veterans' Employment and Training Service
DVA	Department of Veterans' Affairs
DVOP	Disabled Veterans' Outreach Program
EDR	Expenditure Detail Report
ETP	Employment and Training Programs Division
FIFO	First-In First-Out
FFR	Federal Financial Report
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GL	General Ledger
JVSG	Jobs for Veterans State Grant
LVER	Local Veterans Employment Representative
NOA	Notification of Obligation Authority
OIG	Office of Inspector General
OMB	Office of Management and Budget
SGA	Solicitation for Grant Application
SHARP	Statewide Human Resource and Payroll Project
STARS	State Accounting and Reporting System
TAP	Transitioning Assistance Program Workshops
USC	United States Code
VPL	Veterans' Program Letter
WS+B	WithumSmith+Brown

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Appendix D

VETS and Kansas DOC's Responses to Draft Report

VETS Response:

U.S. Department of Labor

Assistant Secretary for
Veterans' Employment and Training
Washington, D.C. 20210



MAR 31 2011

Elliot P. Lewis
Assistant Inspector General for Audit Office of Inspector General
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, D.C. 20210

Dear Mr. Lewis;

This is our initial response to recommendations regarding the independent audit of the conduct and reporting of the Fiscal Year (FY) 2008 Jobs for Veterans' State Grant (JVSG) by the Kansas Department of Commerce. This audit was conducted through the Office of Audit of the Department of Labor's Office of Inspector General as requested by the Veterans' Employment and Training Service (VETS) and performed through contract with WithumSmith+Brown of Silver Spring, Maryland. This audit was requested since VETS noted frequent lateness in reporting and found errors in FY 2008 financial reports that were received from the Kansas Department of Commerce, Office of Workforce Services.

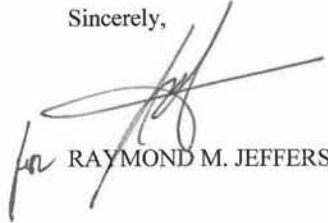
This office concurs that the subject JVSG grantee, the Kansas Department of Commerce, exercised a lack of effective management controls and appropriate supervisory oversight resulting in its ability to ensure expenditures were reported in accordance with required timeframes and reported properly with supporting documentation.

We further acknowledge audit findings that indirect costs were improperly calculated and reported; reported expenditures exceeded VETS obligation authority; that \$152,096 in "Other" expenditures could not be substantiated; and, that the FY 2008 JVSG grant was overcharged by \$14,969 resulting in \$167,065 of questionable costs.

As the Assistant Secretary for Veterans' Employment and Training, I intend to provide the audit findings to the Grant Officer for the JVSG to take the necessary actions to consider recovering the questioned unsupported "other" costs of \$152,096 and indirect costs of \$14,969, and require the Kansas Department of Commerce to take and report their remedial efforts to develop sufficient internal control policies and procedures to improve program management and to ensure that JVSG funds are properly recorded and reported accurately and in a timely manner. VETS believes that sufficient internal controls can be reasonably implemented within sixty days from notification and will request another audit of the program be conducted in the future as coordinated with the Office of the Inspector General.

I appreciate the efforts of all those who participated in the discussion, investigation and preparation of these audit findings and recommendations.

Sincerely,



RAYMOND M. JEFFERSON

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Pat George, Secretary

Department of Commerce

Sam Brownback, Governor

March 31, 2011

Michael Yarborough
CPA, Audit Director

RE: Draft Report #04-11-002-02-201 – Kansas Controls Over Jobs for Veteran State Grant Contract Reporting and Monitoring

Dear Mr. Yarborough:

This letter will serve as an “informal response” to your proposed statement of facts and audit recommendations pertaining to certain fiscal practices of the Kansas Department of Commerce (Commerce). With respect to the Jobs for Veterans State Grants Program (JVSG), Commerce is appreciative of the auditor’s efforts and believes the review will lead to better practices. However, Commerce has not had adequate time to fully respond for the reasons set forth below. We are actively seeking additional support to better respond to the findings. If provided additional time, it appears many of the questioned costs could be supported.

On March 4, 2011, the auditors provided Commerce with a proposed statement of facts concerning the audit. In the email that accompanied the letter, it was acknowledged that “Commerce was still working on providing supporting documentation for some of the issues noted. That documentation can be provided as part of your informal response and will be considered when drafting the audit report.”

Due to a lack of adequate time, the agency is still in the process of preparing the documentation the auditors acknowledged is necessary to determine the appropriate findings in this review. Commerce believes it will be able to adequately account for most, if not all, of the \$152,096.00 that is referenced as “unsupported” and the \$14,969.00 of “indirect costs.” We have informed OIG of our desire to provide the documentation within the next few weeks but were unable to get additional time. Contributing to our need for more time to locate supporting documents for these costs are the facts that, since the fiscal year in question, we have a relatively new Chief Fiscal Officer, new fiscal staff with responsibility for this program, a new financial reporting system, and different leadership over our veterans’ programs. All of these factors have made more difficult the process of locating the supporting documentation for many of the questioned transactions.

The second recommendation is that Commerce be directed “to develop and implement internal control policies and procedures to improve program management and to ensure that JVSG funds are properly recorded and reported.”

As noted above, Commerce has already implemented a new financial reporting system and is in agreement their policies and procedures needed to be improved. Given that over two years have elapsed since FY 2008, many of those improvements have already been implemented. We have acknowledged that certain practices may have been inadequate and lead to confusion surrounding the “questionable” expenses. Could the recommendation inform the JVSG that significant reforms have been implemented to correct those past practices? These reforms include documenting and implementing procedures to assure accurate and complete reporting to DOL VETS. Expenditures are now tracked regularly using a standardized process and template. In addition, procedures are being documented and followed for the indirect charges to the VETS grant as well as documenting the methodology used in the allocation of “Other” charges. Lastly, Commerce has developed a process to ensure that cumulative grant obligations do not exceed the VETS NOA. These processes are monitored frequently to ensure timeliness and accuracy.

In order for the audit findings to be comprehensive and have the appropriate context, a complete statement of facts supported by proper documentation should be included. All parties involved appear to agree the report is incomplete in that it does not have documentation that we are actively working to provide as soon as practicable. Commerce has already implemented substantive and systemic reforms designed to improve our fiscal reporting processes. We sincerely hope the U.S. Department of Labor will give full consideration to our acknowledgment of certain opportunities to improve and our continuing efforts to improve our internal controls and fiscal practices.

Thank you for your consideration of our request to supplement this response prior to the issuance of any findings by the USDOL.

Sincerely,



Traci Herrick
Chief Fiscal Officer

cc: Maureen Wagner

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