

U.S. Department of Labor

Office of Inspector General—Office of Audit

Wage and Hour Division



WHD LACKED EFFECTIVE FINANCIAL MANAGEMENT OF BACK WAGE AND CIVIL MONETARY PENALTY RECEIVABLES

Date Issued: September 28, 2012
Report Number: 22-12-013-04-420

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

BRIEFLY...

Highlights of Report Number 22-12-013-04-420, issued to the Deputy Administrator for Wage and Hour.

WHY READ THE REPORT

The Wage and Hour Division (WHD) enforces several labor laws, including the Fair Labor Standards Act of 1938 (FLSA). The FLSA is designed to ensure that millions of workers are paid the federal minimum wage and overtime. WHD investigates allegations of wage violations and assesses civil monetary penalties (CMP) when it proves an employer is a repeat and/or willful violator of labor laws. WHD may also require that employers pay back wages to employees if employers are found in violation. In such cases, WHD is responsible for supervising the payment of back wages due to each employee.

WHD is required to report to the U.S. Department of Treasury's (Treasury) Financial Management Service (FMS) quarterly on the status of back wage and CMP receivables. In fiscal years 2011 and 2010, WHD reported in the DOL financial report approximately \$12 million and \$8 million in CMP revenues, and \$99,000 and \$21 million in disbursements of fiduciary assets to beneficiaries for back wage, respectively.

The Financial Management Branch, a component of the Division of Administrative Operations within WHD, is responsible for the accounting and reporting on back wage and CMP accounts receivables, collections, and write-offs to Treasury's FMS on the Treasury Report on Receivables and Debt Collection Activities (TROR).

WHY OIG CONDUCTED THE AUDIT

We conducted this audit to determine whether WHD had sufficient internal controls to ensure the completeness and accuracy of the receivable data reported to Treasury's FMS.

We examined WHD's reporting for the quarters ending June 30, 2010, and March 31, 2011.

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/2012/22-12-013-04-420.pdf>

September 2012

WHD LACKED EFFECTIVE FINANCIAL MANAGEMENT OF BACK WAGE AND CIVIL MONETARY PENALTY RECEIVABLES

WHAT OIG FOUND

WHD did not accurately account for and report back wage and CMP receivables due from employers. Furthermore, WHD staff may have erroneously written off collectible receivables. Additionally, we found that amounts had been written off in excess of the receivable amounts due; a lack of segregation of duties allowed staff the ability to initiate, review, and approve debt write offs; and debts had been written off by users with generic account names.

WHAT OIG RECOMMENDED

We recommended the Deputy Administrator for Wage and Hour:

- Develop and implement policies and procedures to account and report on the status of back wage and CMP receivables.
- Improve monitoring of the work performed by contractors to ensure accuracy and completeness.
- Update the agency's policies regarding segregation of duties over the initiation, review, and approval of write-off transactions.
- Modify the user guides for the back wage and CMP systems to include the reports used in the TROR preparation process and their purpose.

WHD agreed with our recommendations and acknowledged errors in its preparation of the TROR for back wages and CMPs. WHD agreed the review process was not properly followed and stated it took steps to bolster the implementation of its existing internal control process. However, WHD disagreed with certain errors we noted in its accounting over back wages and CMPs. We continue to believe that WHD's lack of effective financial management of back wages and CMPs created a risk that staff could erroneously write off collectible receivables.

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U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



September 28, 2012

Assistant Inspector General's Report

Nancy J. Leppink
Deputy Administrator
Wage and Hour Division
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, DC 20210

The Wage and Hour Division (WHD) enforces several labor laws, including the Fair Labor Standards Act of 1938 (FLSA). FLSA is designed to ensure that millions of workers are paid at least the federal minimum wage and appropriate overtime. WHD investigates allegations of wage violations and assesses civil monetary penalties (CMP) when it proves an employer is a repeat and/or willful violator of labor laws. WHD may also require that employers pay back wages to employees if employers are found in violation. In such cases, WHD is responsible for supervising the payment of back wages due to each employee.

WHD is required to submit quarterly reports to the U.S. Department of Treasury's (Treasury) Financial Management Service (FMS) on the status of back wage and CMP receivables. This report is called the Treasury Report on Receivables and Debt Collection Activities (TROR). The TROR tells stakeholders the total value of the receivables owed to federal agencies and the status of the debt portfolio.

Our audit objective was to determine whether WHD had sufficient internal controls to ensure the completeness and accuracy of the receivable data reported to Treasury for back wage and CMP.

To accomplish our objective, we obtained an understanding of WHD's process for accounting and reporting on back wage and CMP receivables by examining WHD's policies and procedures and interviewing contractor and WHD officials. We tested the reconciliation of the data reported in the TRORs to WHD's back wage and CMP systems. We performed analytical procedures on the TRORs and tested to ensure they were prepared in accordance with Treasury's FMS requirements. The audit examined WHD's accounting and reporting on the status of accounts receivables for back wage and CMP to Treasury's FMS for the quarters ending, June 30, 2010, and March 31, 2011.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Additional background information is detailed in Appendix A, and our objective, scope, methodology, and criteria are detailed in Appendix B.

RESULTS IN BRIEF

WHD lacked an effective internal control process to account and report on the status of back wage and CMP receivables. Furthermore, WHD staff may have erroneously accounted for write-offs of back wage and CMP. Therefore, WHD was not able to ensure the receivable data reported to Treasury were complete and accurate.

The number and amount of back wage and CMP receivables were not consistently reported to Treasury, did not agree with supporting documentation, or were incorrectly entered into Treasury's information system by WHD staff. For example, reported amounts for back wage did not agree with the supporting documentation for 16 of the 19 items we tested (84 percent). WHD reported approximately \$13.3 million in net receivables to Treasury; however, supporting documentation showed net receivables to be \$22.8 million.

We identified errors in WHD's accounting for receivables written off as uncollectible. For example, amounts were written off in excess of the receivable amounts due from employers. WHD lacked controls in its system to prevent such transactions. Furthermore, WHD staff had the ability to initiate, review, and approve amounts written off because of a lack of segregation of duties within the system. Additionally, amounts written off were initiated, reviewed, and approved by users with generic account names, which allowed WHD staff to make entries and not be identified within the system. Because WHD was unable to provide us reconcilable data from the back wage and CMP systems, it was not possible to test the transaction detail in those systems. Therefore, we were unable to determine the extent to which errors occurred within those systems or whether transactions related to back wage and CMP receivables were proper.

Furthermore, WHD's review of the work performed by its contract accountant to prepare the TRORs was inadequate. There was no evidence that WHD staff verified the accuracy and completeness of the data in the spreadsheets used by the contract accountant to prepare the TROR by comparing that data with back wage and CMP system-generated reports. Instead, WHD relied entirely on the contractor to prepare the TROR report on the status of back wage and CMP receivables. Thus, errors were allowed to be reported and go undetected by WHD staff.

We identified inconsistencies in WHD's quarterly reporting of back wage and CMP receivables to Treasury. Back wage receivables written off increased 388 percent in the 2nd quarter of FY 2011 from the 1st quarter of FY 2011, and WHD had reported the same balances on the TRORs in the 1st and 2nd quarters of FY 2010.

WHD accumulated data on the status of receivables from the back wage, CMP, and Treasury's systems; however, the system user guides did not identify what information should be captured and how it should be used. Thus, data on the status of receivables were used and reported without WHD management having any knowledge of how the data were derived.

We made four recommendations to the Deputy Administrator for Wage and Hour to: (1) develop and implement policies and procedures to account and report on the status of back wage and CMP receivables; (2) improve monitoring of the work performed by contractors to ensure accuracy and completeness; (3) update the agency's policies regarding segregation of duties, over the initiation, review, and approval of write-off transactions; and (4) modify the user guides for the back wage and CMP systems to include the reports used in the TROR preparation process and their purpose.

In response to the draft report, the Deputy Administrator for WHD agreed with our recommendations and is taking corrective actions. WHD acknowledged errors in the preparation of the TROR, agreed that the review process was not properly followed, and stated it took steps to bolster the implementation of its existing internal control process. Furthermore, WHD stated it was focused on correcting these errors to ensure that TROR submissions are complete, accurate, and contain all supporting documentation.

WHD disagreed with certain errors we had cited regarding its accounting over back wages and CMPs. WHD provided information in its response to resolve some of the deficiencies. However, this did not adequately address the deficiencies noted in the report. The Deputy Administrator's response is included in its entirety as Appendix D.

We continue to believe that WHD's lack of effective financial management of back wages and CMPs creates a risk that staff could erroneously write off collectible receivables.

RESULTS AND FINDINGS

Objective — Did WHD have sufficient internal controls to ensure the completeness and accuracy of the receivable data reported to Treasury for back wage and civil monetary penalties?

WHD did not accurately report the amount of back wage and CMP receivables in its quarterly reports to Treasury.

WHD lacked an effective internal control process to account and report on the status of back wage and CMP receivables; therefore, WHD was not able to ensure the receivable data were complete and accurate. Because WHD management lacked adequate controls over back wage and CMP, WHD staff may have erroneously written off collectible receivables for back wage and CMP.

Errors in reporting on the status of receivables for back wage and CMP to Treasury

The status of the receivables due on the TROR for back wage and CMP was not consistently reported, did not agree with supporting documentation, and was incorrectly entered into Treasury's FMS Debt Management Information System (DMIS). In each of the basic attributes we tested, such as validating the data reported to Treasury's FMS with supporting documentation or verifying the TROR was properly completed, we noted at least one error.

For example, on the TROR as of June 30, 2010, WHD did not report the correct number of back wage receivables in 21 of 27 (78 percent) items we tested (see Exhibit 1). Additionally, WHD incorrectly entered the amount of back wage receivables in DMIS in 6 of 44 (14 percent) tested items. The amounts of back wage receivables reported on the TROR were not properly supported in 19 of 44 instances (43 percent). In 16 of those 19 instances (84 percent), the amount did not agree with supporting documentation.

From our testing, we noted discrepancies between the supporting documentation used to prepare the TROR and the beginning accounts receivable balance, as well as the amount of new accounts receivables, accruals, and collections reported on the TROR. While we noted improvements in WHD's reporting as of March 31, 2011, errors continued to exist between what was reported and the supporting documentation. These errors continued to exist because WHD's existing internal control process was not sufficient to ensure the data reported on the TROR was complete and accurate.

WHD reported approximately \$13.3 million in net back wage receivables to Treasury. However, based upon the supporting documentation, WHD should have reported approximately \$22.8 million, a net difference of \$9.5 million. Although WHD management stated they recognized the error in FY 2010 and attempted to address it in FY 2011, the error was not disclosed to us nor did WHD provide documentation to support their attempts to correct the error. In addition, we noted discrepancies in WHD's

reporting of the debt categories – delinquent rescheduled debt, non-delinquent rescheduled debt, and age classifications – when compared to the supporting documentation.

The Treasury's FMS *Instructional Workbook for Preparing the Treasury Report on Receivables and Debt Collection Activities* requires that the figures provided in the TROR to be reconcilable with the agency's financial statements. Although WHD officials stated that a portion of the described discrepancies could be accounted for by receipts, WHD could not provide sufficient evidence to support this claim. Based on the errors we identified, WHD management could not ensure that the TROR reports on the status of back wage and CMP receivables were accurate or reliable. As such, any other official reports using the TROR data submitted by WHD and disseminated by Treasury's FMS to Congress, Office of Management and Budget, or the public would have contained inaccurate information.

Back wage and CMP data not reconcilable

Because of the discrepancies we identified in WHD's reporting on back wage and CMP receivables, we requested additional data from the back wage and CMP systems to perform further testing of the transaction detail. However, WHD was unable to provide auditable data populations that were reconcilable with the data in the system-generated reports used to prepare the TRORs or the data reported in the TRORs. For example, WHD was unable to identify which fields in the data populations were applicable to accounts receivables, including collections, write-offs, and the accrual of penalties, interest, and administrative costs. WHD management officials believed the data from the tables and fields corresponded to the TROR reports; however, they were unable to provide a crosswalk from data populations to the reports. Thus, it was not possible to test the transaction detail in the back wage and CMP systems.

Without auditable data, WHD could not reconcile the data from the back wage and CMP systems with the data reported to Treasury's FMS or the system generated reports. Such reconciliations would have detected errors or anomalies in WHD's accounting and reporting of back wage and CMP. Until WHD can produce reconcilable data from the back wage and CMP systems, errors will continue to exist and will go undetected.

Errors in accounting for write-offs of back wage and CMP

Because WHD was unable to provide auditable data, we examined the reports that were used to accumulate the data on the status of back wage and CMP receivables. We identified numerous accounting errors. For example, we identified errors in WHD's accounting for receivables written off (see Exhibit 2). One CMP case included current period write-offs of \$775,738 and prior period write-offs of \$130,122, which was more than the \$142,078 total due. WHD management stated that although this receivable had been written off, they subsequently received payments from the debtor. According to WHD management, each time a payment was received, Treasury required the amount

written off to be reversed in order to apply the payment. After the payment was applied, the remaining amount due was written off to show the case as a zero balance. However, during our review of Treasury guidance we noted no such requirement, but rather found the requirement to be that an agency should establish accounting procedures to account for collections on written-off debts. As a result of the accounting reversals WHD had made, the total amount written off related to this case and reported to Treasury on the TROR was overstated.

We also found that a lack of segregation of duties allowed WHD employees to both review and approve amounts written off due from employers for back wage and CMP. In each of the five regional offices, we identified write-offs that were both reviewed and approved by the same employee. Although the back wage and CMP systems user guides required every write-off to be completed by three separate people — one person each to initiate, review, and approve — these internal controls were not operating effectively to prevent such transactions from occurring. WHD management stated that there were some exceptions to the three separate individuals write-off policy, such as write-offs of amounts that were less than \$20. However, these exceptions were not documented in WHD's policies or procedures. Regardless of such an exception, we identified write-offs greater than \$20 that were both reviewed and approved by the same employee.

We also identified write-offs that were reviewed and approved by employees with generic user accounts, such as "Former WH" or "BWFS." In each of the five regional offices, we identified write-offs that were both reviewed and approved by generic user accounts. As such, users had the ability to review and approve erroneous entries and not be identified within the system. WHD management stated that these generic user accounts represented automatic write-offs generated by the system — no WHD staff made the write-offs. While we noted in the system user guides that once cases reached 24-months delinquent they were automatically written off, we noted no evidence that these generic user accounts were associated with such transactions. Furthermore, because WHD could not provide auditable data for testing, we were unable to determine whether these accounts were 24-months delinquent.

WHD's inadequate policy guidance for the processing of receivable write-offs hampered its ability to determine whether write-offs had been properly authorized and recorded. As a result, WHD is at risk that accounting errors may occur and go undetected.

Inadequate monitoring of contractors preparing the report on the status of back wage and CMP receivables

WHD lacked effective policies or procedures to report on the status of back wage and CMP receivables and relied on the knowledge of contractors to report such information correctly. The U.S. Government Accountability Office's "Standards for Internal Control in the Federal Government" states, in part:

Management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure that they are built into and an integral part of operations... internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

WHD relied entirely on contractors to report on the status of receivables for back wage and CMP. The current contractor assumed this function in April 2010 from the preceding contractor who departed in February 2010. The contract accountant informed us the TRORs were prepared by following the documentation of the preceding contractor and Treasury's "Instructional Workbook for Preparing the Treasury Report on Receivables and Debt Collection Activities." WHD's review of the work of the contract accountant was inadequate. For example, WHD did not compare the data in the spreadsheets used by the contractor to report on the receivables status with data from the back wage, CMP, and Treasury's FMS systems to verify the data's accuracy and validity. Thus, errors were allowed to be reported and went undetected by WHD staff.

Inconsistencies in WHD's quarterly reporting

We identified inconsistencies in WHD's quarterly reporting on the status of back wage and CMP receivables. For example, back wages written off increased 388 percent in the 2nd quarter of FY 2011 and 443 percent in the 3rd quarter of FY 2010 when compared to the previous quarter. WHD was unable to explain these significant fluctuations. Furthermore, WHD reported the same balances on the TRORs in the 1st and 2nd quarter of FY 2010. Upon inquiry, WHD staff stated this error occurred due to the transition of the TROR preparation process from the previous contractor to the new contractor and a lack of internal resources.

We also found errors on the status of receivables that had not been detected through supervisory review. For example, WHD reported "write-offs - currently not collectible" using the totals from two separate reports. However, one of the reports incorporated data from the other report. By adding the two reports together, WHD overstated the total amount of "write-offs – currently not collectible." Furthermore, neither report included the total amount of write-offs for the fiscal year-to-date, October 1, 2009, to June 30, 2010. Instead, the reports included data for the period January 1, 2010, to June 30, 2010.

WHD accumulated the data on the status of receivables from reports generated from the back wage, CMP, and Treasury's FMS systems; however, the system user guides did not identify what information should be captured and how it should be used. Thus, data on the status of receivables was used and reported without WHD management having any knowledge of how that data was derived.

RECOMMENDATIONS

We recommend the Deputy Administrator for Wage and Hour:

1. Develop and implement policies and procedures to account and report on the status of back wage and CMP receivables.
2. Improve monitoring of the work performed by contractors to ensure accuracy and completeness.
3. Update the agency's policies regarding segregation of duties over the initiation, review, and approval of write-off transactions.
4. Modify the user guides for the back wage and CMP systems to include the reports used in the TROR preparation process and their purpose.

We appreciate the cooperation and courtesies that Wage and Hour personnel extended to the Office of Inspector General during this audit. OIG personnel who made major contributions to this report are listed in Appendix E.



Elliot P. Lewis
Assistant Inspector General
for Audit

Exhibits

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Exhibit 1**TROR Exception Example**

TROR - Review Receivables Data Page 1 of 8

Debt Management Information System Financial Management Service **fms**

TREASURY REPORT ON RECEIVABLES AND DEBT COLLECTION ACTIVITIES

Home Enter Receivables Reports Contact Us Help Logout

1 Select Entity 2 Perform Edit Check 4 Transmit Report

(16) Department of Labor (03) Employment Standards Administration (70001) Wage Hour - Back Wage (A) Administrative Loans
Third Quarter 2010

Part I | Part II | Part III

Part I - Status of Receivables

	Number	Dollars
Section A Receivables and Collections		
1 Beginning FY Balance	1,794	14,992,124
2 New Receivables (+)	0	32,638,429
3 Accruals (+)		1,894,204
4 Collections on Receivables (-)		-30,833,036
(A) At Agency (-)		-29,845,997
(B) At Third Party (-)		0
(C) Asset Sales (-)		0
(D) Collections by Treasury through Offset and Cross-Servicing (-)		0
(E) Collections by Sale After Foreclosure (-)		0
(F) Collections by Department of Justice (-)		0
(G) Other - must footnote (-)		-987,039
5 Adjustments (+ or -)	0	0

https://feddebt.fms.treas.gov/tror/rlvid.jsp.faces?_rap=pc_Perform_edit_check.doLink3Action&_rvip=/perform_edit_check.jsp 07/30/2010

Number/Amounts did not agree to supporting documentation

Number of new receivables not properly reported to Treasury

TROR - Review Receivables Data

Page 2 of 8

(A) Reclassified/Adjusted Amounts (+ or -)			0
(B) Adjustments Due to Sale of Assets (+ or -)			0
(C) Consolidations (+ or -)			0
(D) Foreclosure Adjustments (+ or -)			0
(E) Written-Off Debts Reinstated for Collection (+)			0
6 Amounts Written Off (-)	0	-5,364,931	
(A) Currently Not Collectible (-)	0	-5,364,931	
(B) Written Off and Closed Out (-)	0	0	
7 Ending Balance	2,086	13,326,790	

Section B**Additional Receivables Data (Information Only)**

Number of new receivables not properly reported to Treasury

Amounts did not agree to supporting documentation

1 Subsets of Ending Balance			
(A) Foreign/Sovereign Government (+)	0	0	
(B) State and Local Government (+)	0	0	
(C) Rescheduled Debt - Delinquent (+)	0	1,571,754	
(D) Rescheduled Debt - Non-Delinquent (+)	0	969,503	
(E) Interest & Late Charges (+)		921,996	

Section C**Delinquent Debt (Excluding CNC Debts)**

No documentation provided to support amount reported to Treasury

1 Delinquencies by Age			
(A) 1-90 Days (+)		4,177,191	
(B) 91-180 Days (+)		905,926	
(C) 181-365 Days (+)		3,316,115	
(D) 1-2 Years (+)		3,738,949	
(E) 2-6 Years (+)		1,131,834	

https://feddebt.fms.treas.gov/tror/_rlvid.jsp.faces?_rap=pc_Perform_edit_check.doLink3Action&_rvip=/perform_edit_check.jsp 07/30/2010

Exhibit 2

Write-Off Report Exception Example

CIVIL MONEY PENALTY SYSTEMS
WRITE-OFF REPORT

REGION: Southwest Regional Office
PERIOD: 01/01/2010 - 06/30/2010

PAGE: 1
RUN DATE: 07/07/2010 2:32:38 PM

Period did not include accumulated total for fiscal year

Write-off in excess of the amount due

Ability to authorize and review write-off

Case Number	Employer Name	W/O Code	Auth. Officer	Review Officer	Date	Principle	Interest	Admin	Penalty	Total of Write-Off	Balance
1015285 (9836) CL	Teens Against Drugs and	CN	Cook	Cook	06/17/2010	\$128,695.16	\$0.00	\$0.00	\$0.00	\$128,695.16	\$0.00
1492491 (23307) MSPA	Samantha Mora, FLC	CN	Tanyi-Tang	Tanyi-Tang	03/23/2010	\$2,482.49	\$0.00	\$0.00	\$0.00	\$2,482.49	\$0.00
1486742 (23537) CL	Subway	CN	Former WH	Former WH	01/26/2010	\$9,545.08	\$0.00	\$0.00	\$0.00	\$9,545.08	\$0.00
1493232 (23648) H2A	Zamora Harvesting Inc.	CN	Former WH	Former WH	01/09/2010	\$4,458.08	\$0.00	\$0.00	\$0.00	\$4,458.08	\$0.00
1493232 (23647) MSPA	Zamora Harvesting Inc.	CN	Former WH	Former WH	01/09/2010	\$543.32	\$0.00	\$0.00	\$0.00	\$543.32	\$0.00
1499890 (23646) MSPA	Padilla, Roberto	CN	Former WH	Former WH	08/23/2010	\$261.16	\$0.00	\$0.00	\$0.00	\$261.16	\$0.00
1484646 (23084) MSPA	Badillo, Francisco FLC					\$4,653.56	\$0.00	\$0.00	\$0.00	\$4,653.56	\$0.00

Write-offs authorized and reviewed by generic user accounts

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Appendices

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Appendix A**Background**

The WHD enforces several labor laws, including the FLSA. The FLSA is designed to ensure that millions of workers are paid the federal minimum wage (\$7.25 per hour) and overtime. WHD investigates allegations of wage and overtime violations and assesses CMP when it can prove an employer is a repeat and/or willful violator of labor laws. WHD may also require employers to pay back wages to employees if employers are found in violation. Back wages represent amounts an employer did not properly pay its employees, which can include pay below the minimum wage or incorrect pay for overtime hours. WHD is responsible for supervising the payment of back wages due to each employee. An employer must provide evidence to WHD indicating the employee had received their back wages. In the event an employer does not provide evidence of payment or refuses to pay back wages to an employee or CMP to WHD, WHD will assess interest, administrative cost charges, and other fees. Should the debt become delinquent more than 180 days, the debt must be referred to the Treasury for debt collection action in accordance with the Debt Collection Improvement Act of 1996 (DCIA). The collection, disbursement, and financial reporting of activity related to CMP and back wage are maintained in the CMP and back wage systems, respectively.

The FMS, a bureau of Treasury, has delegated authority for carrying out the Treasury's government-wide debt collection responsibilities. WHD is required to report to Treasury's FMS quarterly on the status of administrative receivables, which includes back wage and CMP receivables, on the TROR. The TROR is the Treasury's only comprehensive means for periodically collecting data on the status and condition of the Federal Government's non-tax debt portfolio, in accordance with the requirements of the DCIA. The TROR identifies the balance of receivables, accruals, collections, and write-offs at the end of the reporting period. The TROR provides stakeholders the total book value of the receivables owed to federal agencies and the status of the Federal Government's debt portfolio. In FY 2011 and 2010, WHD reported in the DOL financial report approximately \$12 million and \$8 million in CMP revenues, and \$99,000 and \$21 million in disbursements of fiduciary assets to beneficiaries for back wage, respectively. The Financial Management Branch, a component of the Division of Administrative Operations within the WHD, is responsible for accumulating, reviewing, and reporting on back wage and CMP accounts receivables, collections, and write-offs to Treasury's FMS on the TROR.

We initiated this audit because of concerns that WHD lacked effective financial management over back wage collected on behalf of employees and CMP. In 2008, the Government Accountability Office also noted that WHD officials did not know whether back wage or CMP had been collected from employers even though this information was tracked in its financial accounting system. Thus, WHD could not use this information to determine whether it was ensuring workers actually receive the back wages they were entitled to or that employers were being appropriately penalized for violating FLSA.

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Appendix B**Objective, Scope, Methodology, and Criteria**

Objective

The OIG conducted the audit to determine whether WHD had sufficient internal controls to ensure the completeness and accuracy of the receivable data reported to Treasury for back wage and CMP.

Scope

The audit examined WHD's accounting and reporting of accounts receivables for back wage and CMP to the Treasury's FMS. We examined WHD's reporting for fiscal year-to-date as of the two quarters ending, June 30, 2010, and March 31, 2011. We conducted fieldwork at WHD headquarters in Washington, DC.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Methodology

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 whether internal controls significant to the audit were properly designed and placed in operation. We obtained our understanding of WHD's process of accounting and reporting on back wage and CMP receivables by examining WHD's policies and procedures and interviewing contractor and WHD officials from the Division of Administrative Operations, Financial Management Branch.

To answer our audit objective, we selected the TRORs for back wage and CMP submitted for the fiscal year-to-date as of the two quarters ending, June 30, 2010, and March 31, 2011. We selected the fiscal year-to-date TRORs for the quarters ending, June 30, 2010, and March 31, 2011, as they were the most recent submissions of the TRORs over the course of our audit. We tested the reconciliation of the data reported in the TRORs to the back wage and CMP systems. We performed analytical procedures over the TRORs by comparing them to prior quarterly submissions and investigating significant variances by obtaining explanations from management. We tested to ensure the TRORs were prepared in accordance with Treasury's FMS requirements.

Criteria

We used the following criteria to accomplish our audit:

- Title 31, United States Code § 3719, Reports on Debt Collection Activities
- Treasury Financial Manual, Volume I, Part 2, Chapter 4100, Debt Management Reports
- Treasury Financial Manual, Volume I, Part 2, Chapter 4100, Supplement, Instructional Workbook for Preparing the Treasury Report on Receivables and Debt Collection Activities
- Department of Labor Manual Series – Financial Management, Chapter 1100, Debt Management
- The Debt Collection Improvement Act of 1996
- Wage and Hour Division Guidance
- Standards for Internal Control in the Federal Government

Appendix C

Acronyms and Abbreviations

CMP	Civil Monetary Penalties
DCIA	Debt Collection Improvement Act of 1996
DMIS	Debt Management Information System
FLSA	Fair Labor Standards Act of 1938
FMS	Financial Management Service
FY	Fiscal Year
Treasury	U.S. Department of Treasury
TROR	Treasury Report on Receivables and Debt Collection Activities
WHD	Wage and Hour Division

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Appendix D

WHD's Response to Draft Report

U.S. Department of Labor

Wage and Hour Division
Washington, D.C. 20210



SEP 24 2012

MEMORANDUM FOR: ELLIOTT P. LEWIS
Assistant Inspector General

FROM: 
NANCY LEPORE
Deputy Administrator

SUBJECT: Response to the Office of the Inspector General's Draft Report:
WHD Lacked Effective Financial Management of Back Wage and
Civil Monetary Penalty Receivables
Report No. 22-12-013-04-420

The Wage and Hour Division (WHD) appreciates the opportunity to respond to the Assistant Inspector General's May 22, 2012, revised draft report titled *"WHD Lacked Effective Financial Management of Back Wage and Civil Monetary Penalty Receivables."* The report provides four recommendations. WHD's responses to these recommendations are provided below. In a separate attachment, we are providing clarification on specifics of the revised draft report.

Recommendation 1: Develop and implement policies and procedures to account and report on the status of back wage and CMP receivables.

Response: WHD agrees with the recommendation. To this end, WHD will address it, in part, by updating WHD's Financial Accounting and Support Team (FAS Team) procedures manual and expanding the Accounting and Financial Functions chapter that provides guidance for the preparation of the Treasury Report on Receivables and Debt Collection Activities (TROR). WHD anticipates completion of the updating of the FAST procedures manual by the end of the 2nd quarter, FY 2013. WHD will review other manuals and guidance documents to ensure that they are current and consistent.

Recommendation 2: Improve monitoring of the work performed by contractors to ensure accuracy and completeness.

Response: WHD agrees with the recommendation. WHD will establish procedures to ensure appropriate monitoring of all contractor support related to the TROR preparation.

Recommendation 3: Update the agency’s policies regarding segregation of duties over the initiation, review, and approval of write-off transactions.

Response: WHD agrees with the recommendation. The appropriate manuals will be updated and will include a discussion of exceptions to the existing requirement that three employees are needed to complete every write-off. WHD will review the current system applications to determine if changes are warranted in the fields that capture information related to automatic write-off.

Recommendation 4: Modify the user guides for the back wage and CMP systems to include the reports used in the TROR preparation process and their purpose.

WHD also agrees with this recommendation and will include information in its Back Wage Financial System, Civil Money Penalty application, and the Wage and Hour Investigator Support and Reporting Database user guides to explain the importance of the data entries for back wages and CMPs and how that data is used in the TROR preparation process.

Again, thank you for the opportunity to comment on this draft report.

Attachment

cc: Patricia Davidson
Deputy Administrator for Program
Operations

Janice E. Hendrix
Assistant Administrator for Planning, Performance
Evaluation and Communication

Barbara A. Brown
WHD Audit Liaison

Attachment

WHD Response to Report No. 22-12-013-04-420

The following provides WHD's clarification of the issues and concerns presented in the revised draft report.

The audit objective was to determine whether WHD had sufficient internal controls to ensure the completeness and accuracy of the receivable data reported to the Treasury's Financial Management System (FMS) in the TROR for back wages and CMPs. The TROR serves as a management report that informs Federal decision makers of the gross book value of the receivables owed to Federal agencies and the status of the Federal Government's debt portfolio. A debt has the meaning set forth in 31 U.S.C. § 3701 (b)(1), namely any amount of funds or property that has been determined by an appropriate official of the Federal Government to be due to the Government by a person, organization, or entity other than another Federal agency, and which the Federal Government is entitled to receive immediately. Back wages and CMPs become a debt if the person, organization, or entity fails to make payment after a final agency decision has been made and appeals are exhausted. WHD, as a matter of practice, pursues all available collection avenues; but if a debt is not paid within 180 days, WHD is required to send the outstanding sums to Treasury for collection.

According to the draft Audit Report, OIG concluded that WHD did not accurately report the amount of back wage and CMP receivables in its quarterly reports to Treasury and that WHD staff may have erroneously written off collectible receivables in the back wage and CMP systems and that these errors were not detected through supervisory review, reconciliations, or reporting. The audit focused on uncollected debt related to the TROR reporting function—which represents only a small portion of WHD's work—rather than on the agency's much larger program of collecting back wages and CMPs or assessing penalties. A clear understanding of the latter would be necessary to draw a broader conclusion about WHD's practices. Below are WHD's specific concerns with the report.

Report determination: WHD did not accurately report the amount of back wage and CMP receivables in its quarterly reports to Treasury. (Page 3)

The OIG indicated in its preliminary report that WHD did not accurately report the amount of back wage and CMP receivables in its quarterly reports to Treasury.

WHD Response

- WHD wants to make sure that the OIG report explains that references to back wage and CMP should include “systems.” The write-offs occur in the back wage and CMP systems and this information needs to be included when these reports are made.
- WHD also submits that the improvements between the 2010 and 2011 audits suggest that WHD’s internal control process to accumulate, review and report on the status of back wages and CMP receivables was effective when followed. The Auditors reviewed the 3rd Quarter TROR’s ending June 30, 2010, and identified problems with certain areas of the TROR on both the back wage and CMP submissions. WHD agrees that the review process was not properly followed, and took steps to bolster the implementation of its existing internal control process. The auditors further reviewed the 2nd Quarter TRORs ending March 31, 2011 and noted improvements.
- WHD acknowledges the errors made in the preparation of the TROR for the 3rd Quarter FY 2010, all while following its internal control process to accumulate, review and report on the status of back wages and CMP receivables for the 2nd Quarter FY 2011 submission of the TROR. WHD also took steps to ensure that the errors presented to the WHD through the Statement of Facts were addressed in submitting the 2nd Quarter FY 2011 TROR. Those steps proved successful in mitigating the number of errors initially cited. Specifically:
 - a) In comparing the Statement of Facts from February 17, 2011 with the revised Statement of Facts from August 5, 2011, the instances that WHD did not report the required number of back wage accounts receivables/debts on the TROR went from 78% in the 3rd Quarter FY 2010 TROR to less than 1% for the 2nd Quarter FY 2011 TROR in the category, *In Reporting Number of Receivables/Debts for Back Wage on TROR*.
 - b) Similarly, the revised Statement of Facts from August 8, 2011, also demonstrated improvement in the category, *In Reporting Number of Receivables/Debts for CMP on TROR*. In that case, the instances that WHD did not report the required number of CMP accounts receivables/debts on the TROR went from 59% in the 3rd Quarter FY 2010 TROR to 0% for the 2nd Quarter FY 2011 TROR.
 - c) In the category, *In Reporting Amount of Receivables/Debts for CMP on TROR*, the February 2011 Statement of Facts showed that there were 17% of instances in which WHD incorrectly entered the amount of CMP receivables/debts in Treasury’s FMS Debt Management Information System (DMIS) and 8% of instances in which WHD incorrectly reported the amount of CMP accounts receivables/debt reported by WHD on

the TROR. The August 2011 revised Statement of Facts indicates that for the 2nd Quarter FY 2011 TROR, the auditors noted no exception in reporting the required amount of CMP accounts receivables/debts on the TROR and entering CMP accounts receivables/debts in the Treasury DMIS.

- d) The February 2011 Statement of Facts showed that in the category, *In Reporting Amount of Receivables/ Debts for Back Wages on TROR*, there were 84% of instances where the amount reported did not agree with the supporting documentation and 16% of instances where WHD was unable to provide any supporting documentation. The August 2011 revised Statement of Facts demonstrates that WHD went from 84% of instances where the amount reported did not agree to the supporting documentation down to 18% for the 2nd Quarter FY 2011 TROR submission and went from 16% of instances where WHD was unable to provide any supporting documentation to less than 1 % for the 2nd Quarter FY 2011 TROR submission.
- Clearly, when WHD followed its internal control process to accumulate, review, and report on the status of back wages and CMP receivables there were far fewer errors. Although some errors continued to exist between what was reported and the supporting documentation, WHD has focused on correcting these errors for the 2nd and 4th Quarter FY 2011 TROR submissions. WHD has committed to ensuring that the 1st Quarter FY 2012 TROR submissions are complete, accurate, and contain all supporting documentation.

Errors in reporting on the status of receivables for back wages and CMPs to Treasury

In its draft report on page 4, the OIG indicated that WHD reported approximately \$13.3 million in net back wage receivables to Treasury. However, based upon the supporting documentation, the OIG stated that WHD should have reported approximately \$22.8 million, resulting in a net difference of \$9.5 million. Although WHD management officials stated they recognized the error in FY 2010 and attempted to address it in FY 2011, the error was not disclosed to us nor did WHD provide documentation to support their attempts to correct the error. In addition, the OIG noted discrepancies in WHD's reporting of the debt categories—delinquent rescheduled debt, non-delinquent rescheduled debt, and age classifications when compared to the supporting documentation. The Treasury's *FMS Instructional Workbook for Preparing the Treasury Report on Receivables and Debt Collection Activities* requires that the figures provided in the TROR to be reconcilable with the agency's financial statements. Although WHD officials stated that a portion of the described discrepancies could be accounted for by receipts, the OIG felt that WHD could not provide sufficient evidence to support this claim. Based on the errors identified by the OIG, the OIG maintained that WHD management could not ensure that the TROR reports on the status of back wage and CMP receivables were accurate or reliable. As such, the OIG maintained that any other official reports using the TROR data submitted by WHD and disseminated by Treasury's FMS to Congress, Office of Management and Budget, or the public would have contained inaccurate information.

WHD Response

- WHD believes that it has provided documentation for all the numbers that appear on the TROR worksheet report. The audit had indicated that the worksheet numbers could not be documented, but WHD has since shared this additional information with the OIG.
- WHD believes that the error in the net back wage receivables noted by the OIG was caused by an incorrect beginning fiscal year balance in the TROR, which is a number that cannot be modified and is carried over from the previous fiscal year. The supporting documentation referenced is the TROR draft document and worksheets. These documents contained the accurate information. Although DMIS allows for adjustments, the beginning fiscal year balance cannot be changed and carries from quarter to quarter. The difference in the net back wage receivable number is a reflection of the difference in the TROR carry-over balance at the beginning of FY 2011 and the carry-over balance in WHD's supporting documentation.
- WHD recognized this error in FY 2010 and attempted to address it in FY 2011. WHD believes that the error was disclosed to OIG and an explanation of why the error could not be corrected for FY 2011 was provided.
- WHD used supporting documentation to ensure that any appropriate adjustments were made so that the 4th Quarter FY 2011 TROR report properly reflected the net back wage receivables to Treasury. WHD has determined that the 1st Quarter FY 2012 TROR beginning fiscal year balance is accurate based on the 4th Quarter FY 2011 TROR report. The error has been addressed and corrected.
- WHD and OIG have the same concerns and do not want official reports using the TROR data submitted by WHD and disseminated by Treasury FMS to Congress, the Office of Management and Budget, or the public to contain inaccurate information.

Errors in accounting for write-offs of back wages and CMP**Treasury Write-offs**

Because WHD was unable to provide auditable data populations from its applications, the OIG auditors examined WHD's standard financial reports, which were used to accumulate the data on the status of back wage and CMP receivables. The OIG identified numerous accounting errors. For example, in Exhibit 2, the OIG identified errors in WHD's accounting for receivables written off. One CMP case included current period write-offs of \$775,738 and prior period write-offs of \$130,122, which was more than the \$142,078 total due. OIG indicated that WHD management stated that although this receivable had been written off, they subsequently received payments from the debtor. According to WHD management, each time a payment was received, Treasury required the amount written off to be reversed in order to apply the payment. After the payment was applied, the remaining amount due was written off to show the case as a zero balance. However, during the OIG review of Treasury guidance OIG noted no such requirement, but

rather found the requirement to be that an agency should establish accounting procedures to account for collections on written-off debts. The OIG indicated that, as a result of the accounting reversals WHD had made, the total amount written off related to this case and reported to Treasury on the TROR was overstated. The OIG also felt that a lack of segregation of duties allowed WHD employees to both review and approve amounts written off due from employers for back wage and CMP's. The OIG also indicated that WHD's inadequate policy guidance for the processing of receivable write-offs hampered its ability to determine whether write-offs had been properly authorized and recorded. As a result, the OIG feels that WHD is at risk that accounting errors may occur and go undetected.

WHD Response

- Treasury requires that, if an amount of receivable was already written-off, in order for a payment to be applied (*e.g.*, if Treasury collects a payment from an employer), the full written-off amount must be reversed in the applications in order to apply the payment received. This is a requirement of Treasury, not a WHD policy. Once the payment is applied, if it is not for the full payment of the outstanding receivable, the balance must be written-off again to bring the balance back to a zero balance. If Treasury makes multiple collections for an employer, this process has to occur for each payment.
- The case referenced in the report indicates current write-offs of \$775,738 and a prior write-off of \$130,122. The OIG indicated that this was more than the \$142,078 total due. This is also not accurate because the exhibit shows the \$777,165 as the current period reversal, not the written off amount as uncollectible. This case had an original CMP due of \$118,250. This amount was originally due in November 2000. WHD has been using Treasury's debt collection processes to collect whatever payments it could to pay down this CMP assessment. At the time the report was provided to OIG, the interest amount was \$10,682.96. This amount did not include penalty amounts and administrative fees. The \$142,078.10 total due on the exhibit is the original amount, interest, penalty, and administrative fees. Since the debt is more than 24 months old, the debt has to be written off per Treasury requirements. Payments of approximately \$236.80 per month have been coming in through Treasury's collections efforts since 2006. Some small payments came in prior to this date, but were not monthly. Each time a payment is received, the amount written-off has to be reversed in order to apply the payment, which is why the exhibit shows current period reversals of \$777,164.76. After the payment is applied, the amount remaining due has to be written off to show the case as having a zero balance which is also reflected on the exhibit. These are not cumulative write-off amounts as the report suggests and WHD is not writing off more than is actually due.
- The write-off transactions are required by Treasury when payments need to be applied to cases where the debt has been written-off and has a zero balance. These are not erroneous transactions. The report indicates that the transactions were permitted to occur because of a lack of controls within the CMP system that would prohibit users from initiating such transactions. OPAC payments are now completed automatically and forces the application to complete the reversals and write-offs to make sure the case reflects the payments and the

zero balance. Users are not involved in this automated payment process.

- WHD will review its accounting procedures that account for collection of written-off debt to make sure that total amount written off related to a case and reported to Treasury on the TROR's are accurate.

Segregation of duties

In addition, the OIG found that a lack of segregation of duties allowed WHD employees to both review and approve amounts written off due from employers for back wages and CMPs. In each of the five regional offices, the OIG identified write-offs that were both reviewed and approved by the same employee. Although the back wage and CMP systems user guides required every write-off to be completed by three separate people—one person each to initiate, review, and approve—these internal controls were not operating effectively to prevent such transactions from occurring. WHD management stated that there were some exceptions to the three individual write-off policy, such as write-offs of amounts that were less than \$20. However, these exceptions were not documented in WHD's policies or procedures. Regardless of such an exception, we identified write-offs greater than \$20 that were both reviewed and approved by the same employee.

The OIG also identified write-offs that were reviewed and approved by employees with generic user accounts such as "Former WH" or "BWFS." In each of the five regional offices, the OIG identified write-offs that were both reviewed and approved by generic user accounts. As such, users had the ability to review and approve erroneous entries and not be identified within the system. WHD management stated that these generic user accounts represented automatic write-offs generated by the system; no WHD staff made the write-offs. While we noted in the system user guides that once cases reached 24-months delinquent, they were automatically written off, we noted no evidence that these generic user accounts were associated with such transactions. Furthermore, because WHD could not provide auditable data for testing, the OIG were unable to determine whether these accounts were 24-months delinquent.

WHD's inadequate policy guidance for the processing of receivable write-offs hampered its ability to determine whether write-offs had been properly authorized and recorded. As a result, WHD is at risk that accounting errors may occur and go undetected.

WHD Response

- The existing applications clearly have segregation when it comes to the write-off policies. The applications require three individuals to complete a write-off. There are some exceptions, however, to this "three individual write-off policy," and the report focuses on some cases that fall into those exceptions. The exceptions are explained in greater detail in the following discussion.

- In both the Back Wage Financial System (BWFS) and CMP application user guides, clearly indicate that it is WHD policy that every write-off requires three people to complete, (BWFS 5.3 Write-Off Tab -page 70, CMP 3.7 Write-Off Tab -page 41). One person to enter a write-off and save it; one person to review or authorize the write-off; and one person to approve the write-off.
- The ability of a WHD employee to complete a write-off is strictly controlled by the applications' privilege levels. Up to four people per WHD Region have different levels of permissions for write-offs so that if someone is on leave or a detail, WHD can still complete a write-off. This information is covered by WHD security and permission information in the user manuals. The users that have these privileges are monitored and changed as necessary.
- This established policy, which is tracked through the system applications and documented through hard copy, assists in preventing erroneous write-offs.
- The write-off of the back wages and CMPs exists for those circumstances in which WHD has exhausted all avenues for collecting sums due and has turned the matter over to Treasury to pursue the collection of outstanding funds. If Treasury fails to collect, Treasury returns the debt to the agency for write-off. Write-off is mandatory for delinquent debt older than two years.
- Many of the write-offs completed by WHD are listed as "Currently Not Collectible" (CNC). After a debt is written off, the agency makes an assessment on whether cost effective collection efforts should continue. If not, then the debt should be classified as CNC. All available and appropriate collection tools are exhausted before WHD decides to terminate collection action.
- The applications clearly have segregation when it comes to the write-off policies. As indicated above, the applications require three individuals to complete a write-off. There are exceptions to the three individual write-off policy. If a payment comes to WHD's National Office through Treasury, the National Office Senior Financial Systems Analyst has the authority to reverse the write-off on that case in order to apply the funds. This must be done in order to apply the funds to the case.
- Another exception occurs when a case has an amount that needs to be written-off that is less than \$20.00. In this case, the applications allow for one person to enter, review, and approve the write-off. Treasury, itself, limits WHD from sending amounts less than \$20.00. Since the amount is *de minimis*, WHD established a policy that one person could complete this write-off. (WHD will update its BWFS and CMP manuals to reflect this policy.)
- Another exception to the three individual write-off policy occurs when a delinquent debt on a case has exceeded 23 months and the WHD Regions are advised via electronic notification that the case is coming up on the mandatory write-off limitation for delinquent debts. In that case, the Regional Operations managers are advised to complete the write-off in order to comply with the Treasury requirement. This could account for why the OIG identified write-offs greater than \$20 that were both reviewed and approved by the same employee.

This requirement is mandatory per OMB Circular A-129. If the write-off does not occur at the 24-month deadline, the application automatically writes off the delinquent debt to ensure that WHD is complying with OMB Circular A-129.

- The discussion regarding write-offs reviewed and authorized by users with generic account names admittedly has the appearance of allowing WHD staff to make erroneous entries and not be identified within the system. However, this is not the case. The automatic write-off function required a name to be placed in the sections of entered, reviewer, and approver by areas. In the BWFS application, the system places "BWFS BWFS" in those name areas and in the CMP application, it places "10000: Former WH Investigator" in the name area. These designations were automatically placed in those sections as part of the automatic write-off procedures and no WHD staff made the write-offs. The OIG was provided reports explaining that these generic user accounts represented automatic write-offs generated by the system; that no WHD staff made the write-offs. The reports would have provided the evidence that these generic user accounts were associated with such transactions. (WHD plans to include this process in the BWFS, CMP and FAS Team manuals and to review the automated programming in applications to determine if they can be modified to reflect the automated nature of the process.)
- Given this context, WHD management had control over write-offs for back wages and CMP's, and WHD staff did not erroneously write off collective receivables. There is no indication that following these write-off requirements results in workers not receiving back wages to which they are entitled. Likewise for CMPs, WHD has used all of its collection tools and is relying on Treasury to collect the debt due the government. WHD applications indicate when employers fail to pay back wages and/or CMPs, and this information is used in any future investigations of such employer. In the small percentage of WHD matters where back wages or CMPs were sent to Treasury for debt collection, WHD has performed all collection efforts on the back wages prior to doing so. WHD disagrees that inadequate policy guidance for the processing of receivable write-offs hampered its ability to determine whether write-offs had been properly authorized and recorded. WHD also disagrees that WHD is at risk that accounting errors may occur and go undetected. The write-offs were properly completed and it is management's position that the procedures are clear, but that the exceptions to the existing requirement that three employees are needed to complete every write-off be updated in the appropriate manuals. WHD does not agree that improper write-offs would go undetected.

Inadequate monitoring of contractors preparing the report on the status of back wage and CMP receivables.

The OIG report indicated that WHD relied entirely on contractors to report on the status of receivables for back wages and CMPs. The current contractor assumed this function in April 2010 from the preceding contractor who departed in February 2010. The contract accountant informed WHD that the TRORs were prepared by following the documentation of the preceding contractor and Treasury's *Instructional Workbook for Preparing the Treasury Report on Receivables and Debt Collection Activities*. Although the OIG noted that WHD reviewed the work of the contract accountant, the OIG determined that the review was inadequate. For

example, the OIG determined that WHD did not compare the data in the spreadsheets used by the contractor to report on the receivables status with data from the back wage, CMP, and Treasury's FMS systems to verify the data's accuracy and validity. Thus, the OIG concluded that these errors were allowed to be reported and went undetected by WHD staff.

Additionally, the OIG identified what it determined were inconsistencies in WHD's quarterly reporting on the status of back wage and CMP receivables. For example, back wages written off increased 388% in the 2nd quarter of FY 2011 and 443% in the 3rd quarter of FY 2010 when compared to the prior quarterly reporting. The OIG determined that WHD was unable to explain these significant fluctuations. Furthermore, WHD had reported the same balances on the TRORs in the 1st and 2nd quarter of FY 2010. Upon inquiry, WHD staff stated this one-time error occurred due to the transition of the TROR preparation process from the previous contractor to the new contractor and lack of internal resources.

The OIG determined that errors on the status of receivables were not detected through supervisory review. For example, the OIG determined that WHD reported "write-offs" – currently not collectible" using the totals from two separate reports. OIG determined that one of the reports incorporated data from the other report; by adding the two reports together, that WHD overstated the total amount of "write-offs – currently not collectible." Furthermore, neither report included the total amount of write-offs for the fiscal year-to-date, October 1, 2009 to June 30, 2010. Instead, the reports were for the period beginning January 1, 2010 to June 30, 2010.

The OIG stated that WHD accumulated the data on the status of receivables from reports generated from the back wage, CMP, and Treasury's FMS systems; however, the system user guides did not identify what information should be captured and how it should be used. Thus, data on the status of receivables was used and reported without WHD management having any knowledge of how that data was derived.

WHD Response

- WHD will establish procedures to ensure appropriate monitoring of all contractor support related to the TROR preparation.
- WHD has reviewed the completion and submission processes for the 3rd Quarter FY 2010 TROR reports and determined that the existing review processes were not properly followed and that the TROR reports were submitted without appropriate review. The review process was followed for the 2nd Quarter TROR reports for FY 2011, and WHD highlights that these reports showed significant improvements from the 3rd Quarter FY 2010 TROR reports.
- This information about WHD incorrectly reporting write-offs, categorized as CNC, by accumulating the total using two separate reports, was correct for the information used in 3rd Quarter FY 2010 TROR. The reports used and presented to OIG should have included

write-offs for the fiscal year-to-date and this was corrected for 2nd Quarter FY 2011 TRORs.

- It is true that the system user guides that the auditors reviewed did not contain a list of the reports that comprise the information being used to report on the status of receivables. The user guides reviewed by the auditors are primarily field operation manuals and completion of the TROR is a WHD National Office function. WHD has agreed, however, to update the guides to include this information.

Background (Page 17)

- According to the revised draft Audit Report (p. 17), in FY 2011 and 2010 WHD reported in the DOL financial report approximately \$12 million and \$8 million in civil money penalty (CMP) revenues, and \$99,000 and \$21 million in disbursements of fiduciary assets to beneficiaries for back wages, respectively. This statement follows the discussion of WHD's responsibility to report to the U.S. Treasury on the status of back wage and CMP receivables through the Treasury Report on Receivables and Debt Collection Activities (TROR). We are concerned that the juxtaposition of these two reports may convey an inaccurate impression given the fundamental differences in the reports.
- WHD must clarify that the reporting of the civil money penalty revenues are listed as ESA, and includes revenues of multiple agencies.
- WHD must clarify that \$99,000 is not an accurate figure for FY 2011 disbursements of fiduciary assets to beneficiaries for back wages. WHD FY 2011 disbursements of fiduciary assets to beneficiaries for back wages should reflect \$28 million.
- WHD collected and distributed over \$224 million in back wages in cases concluded in FY 2011 and over \$176 million in back wages in cases concluded in FY 2010. WHD collected over \$5.4 million in CMPs in cases that concluded in fiscal year 2011 and \$4.8 million in CMPs in cases that concluded in fiscal year 2010. The number of cases referred to Treasury for debt collection is a small percentage of the number of cases handled by WHD.

Appendix E

Acknowledgements

Key contributors to this report were Joseph L. Donovan, Jr. (Audit Director), Sean Gilkerson, Bashar Chowdhury, and Orville Hylton.

TO REPORT FRAUD, WASTE OR ABUSE, PLEASE CONTACT:

Online: <http://www.oig.dol.gov/hotlineform.htm>

Email: hotline@oig.dol.gov

Telephone: 1-800-347-3756
202-693-6999

Fax: 202-693-7020

Address: Office of Inspector General
U.S. Department of Labor
200 Constitution Avenue, N.W.
Room S-5506
Washington, D.C. 20210