

U.S. Department of Labor

Office of Inspector General—Office of Audit

EMPLOYMENT AND TRAINING ADMINISTRATION



DISTRICT OF COLUMBIA DEPARTMENT OF EMPLOYMENT SERVICES DID NOT HAVE ADEQUATE CONTROLS FOR THE FINANCIAL MANAGEMENT OF FUNDS FOR GRANTS AWARDED BY ETA

Date Issued:
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March 28, 2013
03-13-001-03-315

BRIEFLY...

Highlights of Report Number 03-13-001-03-315, issued to the Assistant Secretary for Employment and Training.

WHY READ THE REPORT

The District of Columbia (DC) Department of Employment Services (DC DOES) is responsible for administering and providing workforce services, including Unemployment Insurance, to DC residents. For the past three fiscal years, DC DOES received an average of approximately \$25 million annually in grant funds from the Department of Labor's (DOL) Employment and Training Administration (ETA) for various workforce investment programs.

WHY OIG CONDUCTED THE AUDIT

The Assistant Secretary for Employment and Training requested that we audit DC DOES' financial administration of workforce grants awarded by ETA. ETA identified significant problems during its fiscal monitoring review of DC DOES.

Our audit objective was to answer the following question:

Did DC DOES have sufficient controls and processes in place to ensure costs claimed for ETA grants were supported by the general ledger and were reasonable, allocable, and allowable as set forth in federal cost principles?

Our audit encompassed 49 grants totaling \$89 million for the period October 1, 2008, through December 31, 2011. We tested a statistical sample of 460 expenditures totaling \$23 million, and a judgmental sample of an additional 72 expenditures totaling \$2 million to determine if they were reasonable, allocable, and allowable; and reconciled DC DOES' \$64 million in reported expenditures with its general ledger.

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/2013/03-13-001-03-315.pdf>.

March 2013

DISTRICT OF COLUMBIA DEPARTMENT OF EMPLOYMENT SERVICES DID NOT HAVE ADEQUATE CONTROLS FOR THE FINANCIAL MANAGEMENT OF FUNDS FOR GRANTS AWARDED BY ETA

WHAT OIG FOUND

DC DOES did not have sufficient controls and processes in place to ensure costs claimed for ETA grants were adequately supported by the general ledger and were reasonable, allocable, and allowable as set forth in federal cost principles. Specifically, we found that DC DOES: (1) improperly charged more than \$5 million in indirect non-personnel services fixed costs to ETA grants that represented estimated budgets rather than actual amounts; (2) could not provide adequate support for journal vouchers that had a net effect of increasing charges to ETA grants by more than \$2.8 million; (3) did not ensure that employees who worked on multiple grants reported the actual time worked on each ETA grant; (4) did not ensure that time charged for administrative, support, and technical services activities was related to DC DOES; and (5) could not support the basis it used to split non-personnel services cost among multiple grants for 4 invoices, totaling \$169,240, of which \$6,729 was charged to ETA grants.

These problems occurred because DC DOES either did not follow established DC Office of the Chief Financial Officer policies and procedures, or the policies and procedures in place were not adequate to ensure costs claimed were properly supported and in compliance with ETA and federal requirements. As a result, we questioned approximately \$8.8 million in expenditures charged to ETA grants.

We also identified two issues related to DC DOES' Federal Financial Reports for which the agency took corrective action before we completed our field work.

WHAT OIG RECOMMENDED

We made seven recommendations that ETA require DC DOES to either comply with established policies and procedures related to its financial administration of ETA grants; or where inadequate or lacking, to improve, develop, and implement applicable policies and procedures. We also recommended that ETA recover the \$8.8 million in costs questioned in our audit.

Both ETA and DC DOES agreed with the recommendations and stated that they have either initiated or completed corrective actions to address all eight recommendations.

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U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



March 28, 2013

Assistant Inspector General's Report

Ms. Jane Oates
Assistant Secretary
for Employment and Training
200 Constitution Avenue, N.W.
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The U.S. Department of Labor's (DOL) Assistant Secretary for Employment and Training requested that we audit the District of Columbia (DC) Department of Employment Services' (DC DOES) financial administration of workforce grants awarded by DOL's Employment and Training Administration (ETA). ETA identified significant problems during its fiscal monitoring review of DC DOES. DC DOES is responsible for administering and providing workforce services, including Unemployment Insurance, to DC residents. For the past three fiscal years, DC DOES received an average of approximately \$25 million annually in grant funds from ETA for various workforce investment programs. While DC DOES had overall responsibility for reporting grant costs to ETA, DC's Office of the Chief Financial Officer (OCFO) performed the accounting functions for DC DOES' financial activities and reporting. Office of Management and Budget (OMB) Circular A-87 establishes the principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments and federally-recognized Indian tribal governments.

Our audit objective was to answer the following question:

Did DC DOES have sufficient controls and processes in place to ensure costs claimed for ETA grants were supported by the general ledger and were reasonable, allocable, and allowable as set forth in federal cost principles?

Our audit encompassed 49 grants totaling \$89 million for the period October 1, 2008, through December 31, 2011.¹ We tested a statistical sample of 460 expenditures totaling \$23 million and a judgmental sample of an additional 72 expenditures totaling \$2 million to determine if they were reasonable, allocable, and allowable; and reconciled DC DOES' \$64 million in reported expenditures with its general ledger. We also

¹ Our review covered costs charged for DC DOES employees who charged time to multiple programs during the period October 1, 2011, through August 25, 2012.

obtained an understanding of DC DOES' internal controls through walkthroughs and interviews with its key officials, as well as ETA regional office staff. Our audit did not include a review of ETA's grant monitoring procedures.

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. Our objective, scope, methodology, and criteria are detailed in Appendix B.

RESULTS IN BRIEF

DC DOES did not have sufficient controls and processes in place to ensure costs claimed for ETA grants were adequately supported by the general ledger and were reasonable, allocable, and allowable as set forth in federal cost principles. Specifically, we found the following:

- DC DOES improperly charged more than \$5 million in indirect non-personnel services fixed costs to ETA grants that represented estimated budgets rather than actual amounts.
- DC DOES could not provide adequate support for 49 of 84 journal vouchers² that it used to reclassify expenses, adjust amounts, and/or transfer costs between grants. These 49 journal vouchers had a net effect of increasing charges to ETA grants by more than \$2.8 million.
- Fifteen DC DOES employees who worked on multiple grants used predetermined estimates instead of actual hours to report their time worked on each ETA grant, resulting in \$957,661 in improper charges for these 15 employees.
- Ten DC OCFO employees charged 100 percent of their time to the DC DOES administrative, support, and technical services cost account when they also worked on administrative, support, and technical services activities not related to DC DOES. Conversely, 12 DC OCFO employees worked on DC DOES activities but did not charge time to the DC DOES administrative, support, and technical services cost account. The net effect was \$43,840 in undercharges to ETA grants for FY 2011; however, DC DOES did not have records available to allow for the calculation of the proper administrative, support, and technical services charges for FYs 2009 and 2010.

² The 49 journal vouchers totaled more than \$10.8 million and represented the absolute value of the journal vouchers, meaning the transactions consisted of increases and decreases of expenditures to the grants. The net amount charged to ETA grants totaled more than \$2.8 million.

- DC DOES could not support the basis it used to split non-personnel services cost among multiple grants for 4 invoices totaling \$169,240, of which \$6,729 was charged to ETA grants.

These problems occurred because DC DOES either did not follow established OCFO policies and procedures, or the OCFO policies and procedures in place were not adequate to ensure costs claimed were properly supported and in compliance with ETA and federal requirements for grants management. As a result, we questioned approximately \$8.8 million in expenditures charged to ETA grants.

During the course of our audit, we also identified the following two issues for which DC DOES took corrective action before we completed our field work:

1. Cumulative expenditures, as of December 31, 2011, in DC DOES' general ledger did not reconcile to the cumulative amounts reported in its Federal Financial Reports (FFR) submitted to ETA. Our reconciliation showed the expenditures on five FFRs were overstated by more than \$500,000. DC DOES developed policies and procedures — effective August 2012 — requiring FFRs to be reconciled to the general ledger before they are submitted to ETA and that any differences be fully explained and documented. DC DOES corrected and resubmitted the FFRs to ETA.
2. DC DOES did not submit timely to ETA any of its 54 FFRs for the quarter ending September 2011. DC DOES implemented policies and procedures establishing time frames for submitting FFRs to ETA. We reviewed the March 31, 2012, FFRs and found all were submitted timely.

We recommended that the Assistant Secretary for Employment and Training require DC DOES to strengthen its policies and procedures to ensure estimated non-personnel services fixed costs are adjusted to actual and that journal vouchers are adequately supported. We also recommended that DC DOES develop and implement policies and procedures requiring employees to charge their time based on actual hours worked or ensure their time is adjusted to actual when estimates are used; charge administrative, support, and technical services costs to ETA grants based on actual time worked; and maintain documentation to support the basis for splitting costs for services that benefit multiple grants. Finally, we recommended that ETA recover \$8.8 million in questioned costs DC DOES improperly charged to ETA grants.

Both ETA and DC DOES agreed with the recommendations and stated that they have either initiated or completed corrective actions to address all eight recommendations. ETA's and DC DOES' responses are included in their entirety in Appendices D and E, respectively.

RESULTS AND FINDINGS

Objective — Did DC DOES have sufficient controls in place to ensure costs claimed for ETA grants were supported, reasonable, allocable, and allowable as set forth in federal cost principles?

DC DOES lack of controls over ETA grant funds resulted in \$8.8 million in questioned costs.

DC DOES did not have sufficient controls and processes in place to ensure costs claimed for ETA grants were adequately supported by the general ledger and were reasonable, allocable, and allowable as set forth in federal cost principles. Our review of 532 transactions totaling more than \$25.4 million found that: (1) DC DOES did not charge actual indirect non-personnel services fixed costs to ETA grants; (2) DC DOES could not provide adequate support for 49 journal vouchers; (3) DC DOES employees working on multiple grants used estimated time to charge ETA grants; (4) administrative, support, and technical services costs for DC CFO staff charged to ETA grants were not accurate; and (5) invoices for non-personnel services expenditures did not have support on how costs were split among multiple grants. We also identified two findings related to the reporting of costs to ETA for which DC DOES took corrective action before we completed our field work. We questioned approximately \$8.8 million in expenditures charged to ETA grants.

Finding 1 — DC DOES did not charge actual indirect non-personnel fixed costs to ETA grants.

DC DOES improperly charged \$5,055,841 in indirect non-personnel services fixed costs to ETA grants that represented estimated budgets rather than actual amounts. This occurred because DC DOES did not follow established policies and procedures requiring estimated allocations to be adjusted to actual amounts. As a result, we questioned \$5,055,841 in indirect non-personnel services fixed costs charged to ETA grants for FYs 2009 through 2011.

According to the approved indirect cost allocation plan, DC DOES was supposed to use information from DC's time distribution system — the Financial Accounting and Reporting System (FARS) — to allocate indirect non-personnel services fixed costs to ETA grants. Examples of indirect non-personnel services fixed costs are rent, utilities, interest payments, and janitorial and security services.

According to the DC OCFO policies and procedures manual and discussion with DC OCFO officials, the following process is supposed to be used to allocate indirect non-personnel services fixed costs to ETA grants. At the start of the fiscal year, as part of the budget process, the DC Office of Budget and Planning provides all DC agencies with budgeted amounts for the various indirect non-personnel services fixed costs based on the number of properties used by the respective agency, and the associated utilities, management costs, and telecommunications. DC agencies then transfer funds

to the DC Office of Finance and Resource Management (OFRM) and record the transactions into the DC System of Accounting and Reporting (SOAR) general ledger. OFRM bills DC agencies monthly for their portion of the indirect non-personnel services fixed costs. OFRM uses the budgeted fixed costs as the basis for the billing, and DC agencies are then supposed to allocate OFRM's billed costs to each agency program and grant. On a monthly basis the agency must compare budgeted fixed costs to actual costs. If the actual amount is more than the amount billed, OFRM notifies the agency of the additional amount to be remitted. If the actual costs are less than the budgeted, OFRM issues a refund.

For the audit period, FY 2009 through the first quarter of FY 2012, DC DOES charged \$5,055,841 for indirect non-personnel services fixed costs to ETA grants, as follows:

| Table – Non-Personnel Services Fixed Costs Charged to ETA Grants FY 2009 Through First Quarter 2012 | |
|--|--------------------|
| Non-Personnel Services SOAR Account | Dollars |
| Energy, Commercial & Building Rental | \$ 231,532 |
| Occupancy Fixed Costs | 183,071 |
| Rentals - Land & Structures | 2,585,169 |
| Security Services | 1,142,809 |
| Telephone | 913,260 |
| Total | \$5,055,841 |

However, DC DOES could not support that it had used data from FARS to allocate indirect non-personnel services fixed costs to ETA grants, as required by the approved cost allocation plan. DC DOES was unable to provide any schedules for FYs 2009 and 2010; and the schedule it had for FY 2011 did not reconcile to actual full-time equivalent (FTE) data available in FARS. DC OCFO officials told us they did not know if the adjustments from budgeted to actual costs were made for FYs 2009 and 2010. For FY 2011, DC OCFO provided a journal voucher that showed agency program costs billed for each type of indirect non-personnel services fixed cost. However, these costs appeared to be based on budgeted FTEs because they did not reconcile back to our calculations that we made based on actual FTE data from FARS.

Because DC DOES did not base costs on actual current-year FTEs, some grants could be under or over charged. For example, for FY 2011, DC DOES charged rent cost totaling \$1,227,714 to three ETA grants. Using actual FTEs, we determined DC DOES should have charged \$691,112 to these grants, resulting in an overcharge of \$536,602.

DC DOES had policies and procedures in place; however, they lacked sufficient details regarding how and when adjustments from budget to actual costs should be performed. DC OCFO officials agreed that detailed policies and procedures are needed to ensure proper controls are in place to effectively manage indirect non-personnel services costs.

Finding 2 — Journal vouchers were not adequately supported.

Our testing of 84 journal vouchers that DC DOES used to adjust or transfer costs between grants found that DC DOES did not have adequate support for 49 of the journal vouchers, totaling \$10,834,955.³ The net amount charged to ETA grants totaled \$2,833,589. This occurred because DC DOES did not follow established policies and procedures requiring support to be maintained that explained the reason and justification for the transactions. As a result, we questioned \$2,833,589 for the unsupported adjustments and transfers to ETA grants (see the Exhibit).

OMB Circular A-87, Attachment A, Section (A)(C)(1)(J), requires that to be allowable under federal awards, costs must be adequately documented.

DC OCFO Policies and Procedures Manual, Volume 1, Section 10551000.30 (A), General Accounting Posting and Reconciliation, states:

All transactions shall be posted to SOAR within 24 to 48 hours of the accounting event. Each agency must maintain in the agency files signed, approved, and fully documented copies of all SOAR transactions (e.g., journal entries) entered during the fiscal year. These copies must be fully retrievable, upon request, for review by the auditors or by the OCFO. SOAR transaction (journal entry) descriptions should clearly identify and explain the financial event being recorded, or the reason for adjustment. In addition, supporting documentation, explaining or justifying the transaction, should be attached to, or referenced in SOAR transaction document.

Our review of 84 journal vouchers found that the documentation DC DOES maintained for 49 (58 percent) of the journal vouchers did not sufficiently explain the reasons and justifications for the transactions. For example, documentation maintained for one journal voucher, a \$208,602 non-personnel services expenditure, noted that the transaction was to “transfer non-personnel services expenditures from Workforce Investment Act (WIA) local funds to WIA federal funds.” The documentation did not provide a basis for what expenses made up the \$208,602 and why it was being transferred.

For 4 the 49 journal vouchers totaling \$20,610, DC DOES reclassified expenses from a current grant phase year to a prior grant phase year.⁴ While the ETA grant funds DC DOES received are allowed to be expensed within a 3-year period after the grant award, it must be readily determinable what costs are being charged to each grant year. As such, when DC DOES made a journal entry to move expenses from one grant phase

³ This amount represented the absolute the value of the journal vouchers, as the transactions for the journal vouchers consisted of increases and decreases in grant expenditures.

⁴ Most ETA grants provide a 3-year time period to expend the funds. For reporting purposes, grantees classify the expenditures in phase years.

year to a prior grant phase year, a detailed account of the expenses should have been maintained as support for the journal entry.

While journal vouchers provide DC DOES the ability to accurately adjust expenditures between general ledger accounts, if the reasons for the adjustments are not adequately supported and the amounts are significant, there is an increased risk for errors and inappropriate transfer of expenditures between grants.

Finding 3 — DC DOES staff working on multiple grants used estimated time to charge ETA grants.

Our testing of a judgmental sample of 22 DC DOES employees who worked on multiple grants found that 15 used predetermined estimates instead of actual hours to report their time worked on each grant. This occurred because DC DOES did not have policies and procedures requiring employees to charge their time based on actual hours worked or to adjust their time worked to actual hours when estimates were used. As a result, we questioned \$957,661⁵ that DC DOES charged for these 15 employees.

OMB Circular A-87, Section 8h (5)(a), requires personnel activity reports or equivalent documentation which reflect an after-the-fact distribution of the actual activity for each employee. Section (5)(e) states that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards, but may be used for interim accounting purposes, provided that at least quarterly comparison of actual costs to budgeted distributions based on monthly activity reports are made.

We identified 67 employees who worked at DC DOES One-Stop centers in FY 2012 and could potentially work on more than one program. For the 22 employees we interviewed, 7 told us they use actual hours to report time worked on activities and 15 told us they used pre-determined percentages to report time worked on activities. For example, a One-Stop supervisor explained that she was instructed to have her employees report their time based on pre-determined percentages. The employees' times sheets were pre-populated with an 80, 10, 10 percentage split for the codes used for the Employment Service, WIA Dislocated Worker, and the WIA Adult programs respectively.

Finding 4 — Administrative, support, and technical services costs for DC Office of Chief Financial Officer staff charged to ETA grants were not accurate.

We identified 10 DC OCFO employees who improperly charged 100 percent of their time to the DC DOES administrative, support, and technical services cost account when they also worked on administrative, support, and technical services activities unrelated to DC DOES. Conversely, we identified 12 DC OCFO employees who worked on DC

⁵ This figure is based on charges to ETA grants for the period of October 1, 2011, through August 25, 2012.

DOES activities, but did not charge time to the DC DOES administrative, support, and technical services cost account. These timekeeping errors occurred because DC OCFO did not have policies and procedures in place to require employees to charge administrative, support, and technical services costs to ETA grants based on actual hours worked. Although we calculated the net effect to be a \$43,840 undercharge to ETA grants,⁶ without proper timekeeping controls, ETA grants are at risk of being overcharged for administrative, support, and technical costs.

OMB Circular A-87, Section 8h (5)(a), requires personnel activity reports or equivalent documentation which reflect an after-the-fact distribution of the actual activity for each employee. Section 8h (5)(e) states that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards, but may be used for interim accounting purposes provided that at least quarterly comparison of actual costs to budgeted distributions based on monthly activity reports are made.

The DC OCFO provides financial accounting and reporting services for all the DC agencies' programs. The DC agencies are grouped into five different clusters. DC DOES is 1 of 20 agencies in the Economic Development and Regulation Cluster (EDRC). Since the time for these DC OCFO employees cannot be readily identified with specific grant-funded programs, their personnel services and fringe benefit expenses are classified as an indirect administrative, support, and technical services cost. DC OCFO policies and procedures required employees to charge time spent on the EDRC to "Agency-Wide Allocation (Project 9998)." The time is then captured in DC DOES' FARS, which was designed to calculate the amount of costs to be allocated to DC DOES grants.

We identified 19 employees who charged 100 percent of their time to DC DOES administrative, support, and technical services in FY 2011. However, 10 of these employees actually worked varying percentages of their time on non-DC DOES administrative, support, and technical services activities. Therefore, the amount of administrative, support, and technical services costs charged to ETA grants was overstated by \$183,562. We also identified 12 DC OCFO employees who in FY 2011 worked on, but did not charge time to, DC DOES administrative, support, and technical services activities, resulting in an undercharge of \$227,402 to ETA grants. Overall, the undercharge to ETA grants was \$43,840. However, DC DOES did not have records available to allow for calculation of the proper administrative, support, and technical services charges for FYs 2009 and 2010.

Finding 5 — Invoices for non-personnel services expenditures did not have support on how costs were split among multiple grants.

During our testing of non-personnel services expenditures, we found 4 invoices totaling \$169,240 in which the costs were split among multiple grants. However, DC DOES

⁶ DC DOES did not have records available to calculate the proper charges for FYs 2009 and 2010. Therefore, the net effect we calculated related to FY 2011 only.

could not provide support as to how it determined the basis for splitting the costs because it had no policies and procedures to require this. As a result, we questioned \$6,729, the total amount charged to ETA grants.

OMB Circular A-87, Appendix A, Section (C)(3)(a), states “A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such costs objective in accordance with relative benefits received.”

DC DOES officials told us that when an invoice was to be split among various grants, the percentages to be charged to each grant were determined by DC DOES program officials. DC DOES officials communicated the rationale for these percentages to DC OCFO either verbally or by email. However, DC DOES program officials were unable to provide any support to justify that the percentages were based on benefits received.

Other Issues

During our audit, we reconciled expenditures DC DOES reported to ETA on the FFRs to the SOAR general ledger, and tested the timeliness of DC DOES’ filing of the quarterly FFRs.

We were initially unable to reconcile cumulative expenditures for five grants to the SOAR general ledger. DC DOES reported cumulative expenditures totaling \$4,481,472 on the FFR for the five grants. However, the SOAR general ledger for these grants supported expenditures of only \$3,430,577, a difference of \$1,050,895. DC OCFO officials researched the differences and found that the general ledger did not reflect journal vouchers posted after the final FFRs were sent to ETA. DC OCFO officials provided us sufficient evidence to support the difference. DC OCFO officials implemented corrective actions to ensure journal vouchers were entered timely into the SOAR general ledger. Effective August, 2012, the DC OFCO revised its policies and procedures to ensure that journal vouchers for adjustments needed in reconciling expenditures reported on the quarterly FFRs (ETA 9130) to expenditures in the SOAR general ledger are submitted and recorded within 5 business days. We reviewed the revised policy and procedure and concluded they were sufficient to ensure that the FFRs will be supported by the SOAR general ledger. DC DOES also corrected the FFRs in question and resubmitted them to ETA.

To determine if DC DOES filed FFRs within the required 45 calendar days after the end of each reporting period, we tested the filing of FFRs for the quarters ended September 30, 2009, 2010, 2011, and December 31, 2012. Our testing revealed that DC DOES filed 54 FFRs late for the quarter ending September 30, 2011. This occurred because DC DOES did not have policies and procedures ensuring that the FFRs were filed within 45 days after the quarter ended. As a result of our audit, DC DOES took corrective action and implemented policies and procedures, effective August 2012, requiring that FFRs be filed within the required 45 days. During our field-work we tested the timeliness FFR filings for the quarters ending March 31, 2012, and found all were filed within the required 45 calendar days.

RECOMMENDATIONS

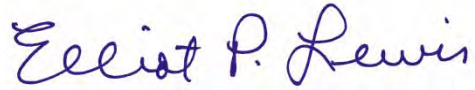
We recommend the Assistant Secretary for Employment and Training require DC DOES to:

1. Comply with established policies and procedures for allocating non-personnel services fixed costs based on FARS actual labor distributions, including monthly adjustments to actual amounts when estimates are used.
2. Improve established policies and procedures to ensure they sufficiently describe the process for adjusting allocated non-personnel services fixed costs from budget to actual using the FARS data and the detailed documentation to be maintained for the journal vouchers used to record the adjustments in the SOAR general ledger.
3. Comply with established policies and procedures requiring adequate documentation be maintained with journal vouchers that provide a basis for the transactions.
4. Develop and implement policies and procedures requiring employees to charge their time based on actual hours worked or ensure they adjusted their time to actual when estimates were used.
5. Develop and implement policies and procedures to ensure administrative, support, and technical costs charged to ETA grants are based on actual time charges.
6. Calculate the proper administrative, support, and technical costs for DC OFCO staff that should have been charged to ETA grants for FYs 2009 and 2010, and recover any overcharges.
7. Develop and implement policies and procedures requiring that adequate support be maintained that provides a basis for splitting costs for purchase orders for services that benefit multiple grants.

We also recommend the Assistant Secretary for Employment and Training:

8. Determine and recover any overcharges relating to the \$5,055,841 of indirect non-personnel services costs questioned that should have been charged to ETA grants based on FARS actual labor distributions; recover \$2,833,589 representing the net increase to ETA grants for the journal vouchers that DC DOES could not support; recover \$957,661 in personnel services expenses charged to ETA grants for the 15 employees whose hours were based on estimates; and recover \$6,729 charged to ETA grants for invoices split among multiple grants that DC DOES could not support.

We appreciate the cooperation and courtesies that ETA and DC DOES officials extended to the Office of Inspector General during this audit. OIG personnel who made major contributions to this report are listed in Appendix F.



Elliot P. Lewis
Assistant Inspector General
for Audit

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Exhibit

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Exhibit**Journal Vouchers That Were Not Adequately Supported**

| Count | Account | Document Number | Amount | ETA Grant |
|--------------|--------------------------|------------------------|---------------|------------------|
| 1. | Other Services & Charges | JARCLSG1 | \$ (569,438) | 2011/11-2100UI |
| 2. | Other Services & Charges | JARCLSG1 | (200,000) | 2011/10-2100UI |
| 3. | Other Services & Charges | IE9CLS1 | 37,826 | 2009/08-2100UI |
| 4. | Other Services & Charges | IERM6238 | 10,587 | 2009/08-WIADIS |
| 5. | Other Services & Charges | JCWT9819 | 6,512 | 2009/06-WIAYTH |
| 6. | Other Services & Charges | IERM6176 | 9,922 | 2009/08-2050ES |
| 7. | Subsidies & Transfers | JCTAD993 | (697,386) | 2010/09-WIAYTH |
| 8. | Subsidies & Transfers | JCATE167 | 449,528 | 2010/08-WIAYTH |
| 9. | Subsidies & Transfers | JCWT9414 | 274,389 | 2009/06-WIAYTH |
| 10. | Subsidies & Transfers | JEJO1H78 | (268,540) | 2011/09-WIADIS |
| 11. | Subsidies & Transfers | JEJO1M33 | 391,840 | 2011/08-WIAYTH |
| 12. | Subsidies & Transfers | JCCFO213 | (155,591) | 2009/06-WIAYTH |
| 13. | Subsidies & Transfers | JCTAD993 | (164,306) | 2010/09-WIAADT |
| 14. | Subsidies & Transfers | JEJO1J01 | 205,729 | 2011/09-WIAADT |
| 15. | Subsidies & Transfers | JCWT9414 | (274,389) | 2009/08-WIAYTH |
| 16. | Subsidies & Transfers | JCTAD993 | 193,295 | 2010/07-WIAYTH |
| 17. | Subsidies & Transfers | JEJO1M33 | 208,602 | 2011/08-WIAYTH |
| 18. | Subsidies & Transfers | JCWT9594 | (155,591) | 2009/08-WIAYTH |
| 19. | Subsidies & Transfers | JEJO1E68 | (155,000) | 2011/10-WIAYTH |
| 20. | Subsidies & Transfers | JCTAD993 | 313,281 | 2010/08-WIAADT |
| 21. | Subsidies & Transfers | JEJO1M13 | 362,836 | 2011/09-WIADIS |
| 22. | Subsidies & Transfers | JEJO1J01 | (205,729) | 2011/10-WIADIS |
| 23. | Subsidies & Transfers | JCATE679 | (151,094) | 2010/10-WIADIS |
| 24. | Subsidies & Transfers | IEIJ1634 | 256,106 | 2010/09-2100UI |
| 25. | Subsidies & Transfers | JCTAD993 | 139,902 | 2010/08-WIAYTH |
| 26. | Subsidies & Transfers | JCWT9816 | (131,339) | 2009/08-WIADIS |
| 27. | Subsidies & Transfers | JCWT9729 | (66,848) | 2009/06-WIAYTH |
| 28. | Subsidies & Transfers | DRRM1115 | (5,442) | 2010/09-WIADIS |
| 29. | Contractual Services | JCWT9981 | 1,600,464 | 2009/09-REED09 |
| 30. | Contractual Services | JARCLSG1 | 569,438 | 2011/09-STREED |
| 31. | Contractual Services | IEDCF003 | 132,724 | 2010/10-2100UI |
| 32. | Contractual Services | IEDCF011 | 105,509 | 2010/10-2100UI |
| 33. | Contractual Services | IEWT9543 | 87,993 | 2009/09-2100UI |
| 34. | Contractual Services | IEWT9543 | 26,603 | 2009/08-WIADIS |

**Exhibit
Page 2**

Journal Vouchers That Were Not Adequately Supported

| Count | Account | Document Number | Amount | ETA Grant |
|---------------------------------------|--|----------------------------|---------------------|------------------|
| 35. | Contractual Services | IEDCF001 | 24,559 | 2010/10-2100UI |
| 36. | Contractual Services | IEWT9543 | 21,999 | 2009/08-WIAADT |
| 37. | Contractual Services | IEGW7031 | (72,000) | 2010/10-2100UI |
| 38. | Equipment & Equipment Rental | JARCLSG1 | 400,000 | 2011/09-STREED |
| 39. | Subsidies & Transfers | JEJO1M33 | 60,552 | 2011/08-STIDIS |
| 40. | Other Services & Charges | JCWT9368 | (27,614) | 2009/08-216STP |
| 41. | Regular Pay-Continuous | PBJO1G61 | 379,229 | 2011/09-2050ES |
| 42. | Regular Pay-Continuous | PBUI TRN1 | (108,961) | 2010/10-2100UE |
| 43. | Regular Pay – Other | PBRCLES1 | (381,076) | 2011/10-2050ES |
| 44. | Regular Pay – Other | PBJO1G00 | (171,341) | 2011/10-2070UI |
| 45. | Regular Pay – Other | PBUI TRN1 | 120,044 | 2010/09-2100UI |
| 46. | Regular Pay-Continuous | PBTAD945 | 415,983 | 2010/08-STIYTH |
| 47. | Regular Pay-Continuous FT | PBJO1J43 | 28,823 | 2011/10-175WTC |
| 48. | Fringe Benefits – Current Personnel | PBTAD841 | (31,126) | 2010/10-164ALC |
| 49. | Fringe Benefits – Current Personnel | PBWT9243 | (7,878) | 2009/09-164ALC |
| Total (Net and Absolute Value) | | Net | \$2,833,589 | |
| | | Absolute | \$10,834,955 | |

Appendices

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Appendix A**Background**

DOL's Assistant Secretary for Employment and Training requested that we audit DC DOES' financial administration of workforce grants awarded by DOL's ETA. ETA identified significant problems during its fiscal monitoring review of DC DOES. DC DOES' mission was to plan, develop, and administer employment-related services to all segments of the Washington, DC, metropolitan population. DC DOES operated various locally and federally-funded programs that provided workforce development services, Unemployment Insurance benefits, compensation to injured workers, and the promotion of safe and healthy workplaces.

While DC DOES had overall responsibility for reporting grant costs to ETA, the DC OCFO performed the accounting functions for DC DOES' financial activities and reporting. For the past three fiscal years, DC DOES received an average of approximately \$27 million annually in grant funds from ETA for various workforce investment programs. For the audit period, October 1, 2008, to December 31, 2011, ETA awarded DC DOES 49 grants totaling \$89,006,080. For the same period, DC DOES reported in its FFRs, \$63,699,605 in expenditures and remaining funds of \$25,306,475.

OMB Circular A-87 establishes the principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments and federally-recognized Indian tribal governments.

DC DOES headquarters was located at 4058 Minnesota Avenue, NE, Washington, DC. In addition, DC DOES had seven Career and Information locations located throughout DC.

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Appendix B

Objective, Scope, Methodology, and Criteria

Objective

Our audit objective was to answer the following question:

Did DC DOES have sufficient controls and processes in place to ensure costs claimed for ETA grants were supported by the general ledger and were reasonable, allocable, and allowable as set forth in federal cost principles?

Scope

The audit covered all 49 ETA grants awarded to DC DOES from October 1, 2008, to December 31, 2011. DC was awarded \$89 million in grants, and reported expenditures for these grants were \$63,699,605. Our review covered costs charged for DC DOES employees who charged time to multiple programs during the period October 1, 2011, through August 25, 2012. We examined a sample of 532 expenditures, totaling \$25,449,644.

We conducted our audit work at DC DOES' main office and ETA's National Office, both located in Washington, DC; and the ETA Regional Office in Philadelphia, PA.

We considered the internal control elements of control environment, risk assessment, control activities, information and communication, and monitoring during our planning and substantive audit phases.

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

To assess DC DOES internal controls over managing ETA grants, we interviewed key DC DOES staff and reviewed criteria in OMB Circular A-87, grant provisions, and DC OCFO and DC DOES policies and procedures. We also analyzed the most recent OMB Circular A-133 Audit and performed a walkthrough of the grant reporting process. We evaluated the internal controls that DC DOES had in place regarding grant management and financial reporting as of July 2012. We conducted interviews with DC OCFO and DC DOES officials responsible for ETA grant financial accounting and reporting.

To test the completeness of the SOAR general ledger, we reconciled it to total expenses DC DOES reported in the FFRs, ETA-9130, as of December 31, 2011, for the

grants in our audit period. To determine if expenses charged to ETA grants were allowable, reasonable, and allocable, we tested 460 randomly selected and 72 judgmentally selected transactions in the SOAR general ledger. We reviewed supporting documentation, such as purchase orders, invoices, and supporting documents. We tested the journal entries for segregation of duties and proper approval prior to posting in the general ledger. For indirect non-personnel services fixed costs, we reviewed the journal vouchers used to charge costs to ETA grant accounts in the SOAR general ledger to determine if they were supported and in accordance with the approved indirect cost allocation plan. We also obtained an understanding of how these costs were charged to ETA grants.

In reviewing personnel services expenditures, we determined how DC DOES employees charge their time to ETA grant activities. Of 67 employees who worked at One-Stop centers during FY 2012, we selected and interviewed a judgmental sample of 22 employees. We selected One-Stop Center employees because they had the maximum potential of working on more than one program. We interviewed the sampled employees to determine what grants they worked on and how they completed their time distribution sheets.

Sampling

We stratified the cash expenditures in the universe for the 49 grants into personnel and non-personnel services and randomly selected 460 transactions. The schedule below provides the total number and dollar value of expenditures selected within each general ledger account:

| General Ledger Account | Sample Size | Sample Dollar Value |
|-------------------------------|--------------------|----------------------------|
| <i>Non – Personnel</i> | | |
| Other services and Charges | 58 | \$ 2,470,159 |
| Subsidies and Transfers | 85 | 7,105,285 |
| Equipment & Equipment Rental | 1 | 400,000 |
| Contractual Services | 2 | 2,169,902 |
| <i>Personnel</i> | | |
| Additional Gross Pay | 61 | 397,473 |
| Fringe Benefits | 66 | 1,242,533 |
| Overtime Pay | 45 | 190,797 |
| Regular Pay – Full Time | 77 | 7,203,204 |
| Regular Pay - Other | 65 | 2,196,991 |
| TOTALS | 460 | \$23,376,344 |

Of the 460 non-personnel services and personnel services transactions we selected for testing, 84 were journal vouchers totaling \$19,039,257; 41 non-personnel services expenses totaling \$9,781,478; and 43 personnel services expenses totaling \$9,257,779. DC DOES used these journal vouchers to reclassify expenses, adjust amounts, and/or

transfer expenses between grants. We reviewed the journal vouchers to determine if they were adequately supported.

We also reviewed a judgmental sample of transactions for indirect non-personnel services fixed costs that were charged to ETA grants for the audit period, as shown in the table below. DC DOES used six SOAR general ledger accounts to account for these costs.

| General Ledger Account | Sample Size | Dollar Value of Sample |
|-------------------------------|--------------------|-------------------------------|
| Energy and Building Rental | 12 | \$112,577 |
| Occupancy Fixed Costs | 5 | 31,557 |
| Rentals - Land & Structures | 5 | 1,106,475 |
| Security Services | 8 | 389,191 |
| Supplies and Materials | 32 | 210,115 |
| Telephone | 10 | 244,385 |
| Total | 72 | \$2,094,300 |

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. This included reviewing DC DOES policies and procedures related to grant financial reporting. We confirmed our understanding of these controls and procedures through interviews and documentation review and analysis. We evaluated internal controls used by DC DOES for reasonable assurance that the payment of invoices were done according to federal requirements. Our consideration of DC DOES internal controls for payment of invoices would not necessarily disclose all matters that might be reportable conditions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

We relied on the computer-processed data contained in DC DOES general ledger. We assessed the reliability of the data by: (1) comparing the general ledger to amounts reported on the FFRs - ETA 9130, and (2) interviewing DC DOES financial officials knowledgeable of the data. Based on these tests and assessments, we concluded the data was sufficiently reliable to use in meeting the audit objective.

Criteria

We used the following criteria to perform this audit:

- OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Revised May 2004, as codified in Title 2, Code of Federal Regulations, Part 225, August 8, 2005
- EDRC Policies and Procedures, Volume XII, September 30, 2010


Appendix C**Acronyms**

| | |
|---------|---|
| DC | District of Columbia |
| DC DOES | District of Columbia, Department of Employment Services |
| DOL | U.S. Department of Labor |
| EDRC | Economic Development and Regulation Cluster |
| ETA | Employment and Training Administration |
| FARS | Financial Administration and Reporting System |
| FFR | Federal Financial Report |
| FTE | Full-Time Equivalent |
| FY | Fiscal Year |
| OCFO | Office of the Chief Financial Officer |
| OFRM | Office of Finance and Resource Management |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| SOAR | System of Accounting and Reporting |
| WIA | Workforce Investment Act |

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Appendix D

ETA Response to Draft Report

| | | | |
|--|---|--|---|
| U.S. Department of Labor | | Assistant Secretary for Employment and Training Washington, D.C. 20210 |  |
| MAR 25 2013 | | | |
| MEMORANDUM FOR: | ELLIOT P. LEWIS Assistant Inspector General Office of Audits | | |
| FROM: | JANE OATES <i>Jane Oates</i> Assistant Secretary Employment and Training Administration | | |
| SUBJECT: | Response to the Office of Inspector General's Audit, <i>District of Columbia Department of Employment Services did not have Adequate Controls for the Financial Management of Funds for Grants Awarded by ETA</i> , Audit Report 03-13-001-03-315 | | |
| <p>The Employment and Training Administration (ETA) appreciates the opportunity to provide a response to the Office of the Inspector General's (OIG) audit report on the District of Columbia's Department of Employment Services (DC DOES) financial management of ETA grants. The audit report verifies ETA's concerns identified during our last financial monitoring review of DC DOES, which led to ETA's request that the OIG conduct an audit of DC DOES' financial management of ETA grants.</p> | | | |
| <p>Recommendation 1: Comply with established policies and procedures for allocating non-personnel services fixed costs based on FARS actual labor distributions, including monthly adjustments to actual amounts when estimates are used.</p> | | | |
| <p>Recommendation 2: Improve established policies and procedures to ensure they sufficiently describe the process for adjusting allocated non-personnel services fixed costs from budget to actual using the FARS data and the detailed documentation to be maintained for the journal vouchers used to record the adjustments in the SOAR general ledger.</p> | | | |
| <p>ETA Response to Recommendations 1 and 2: ETA concurs with these recommendations. ETA will work with DC DOES to ensure that it has policies and procedures in place that adequately address the process for adjusting fixed costs for non-personnel services from budget to actual using current and real monthly labor distribution data. ETA will also assist DC DOES in the development of improved policies that address the maintenance of proper documentation for journal vouchers used to record adjustments.</p> | | | |
| <p>Recommendation 3: Comply with established policies and procedures requiring adequate documentation be maintained with journal vouchers that provide a basis for the transactions.</p> | | | |
| <p>ETA Response: ETA concurs with this recommendation. ETA will verify that DC DOES' current system is maintaining adequate documentation to support journal vouchers.</p> | | | |

Recommendation 4: Develop and implement policies and procedures requiring employees to charge their time based on actual hours worked or ensure they adjusted their time to actual when estimates were used.

Recommendation 5: Develop and implement policies and procedures to ensure administrative, support, and technical costs charged to ETA grants are based on actual time charges.

ETA Response to Recommendations 4 and 5: ETA concurs with these recommendations. ETA will work with both DC DOES and DC OCFO to assist with the development of policies and procedures that adequately document the process for how DC personnel, both DOES and OCFO, charge time to activities based on actual hours worked. ETA will also verify that DC DOES and DC OCFO implement the developed policies and procedures.

Recommendation 6: Calculate the proper administrative, support, and technical costs for DC OFCO staff that should have been charged to ETA grants for FYs 2009 and 2010, and recover any overcharges.

ETA Response: ETA concurs with this recommendation. ETA will require DC DOES to review past records and documentation to determine the actual time spent by DC OCFO on ETA grants for FYs 2009 and 2010. ETA will require DC DOES to provide all support that confirms their determinations and ETA will recover any expenses that were incorrectly charged to ETA's grants.

Recommendation 7: Develop and implement policies and procedures requiring that adequate support be maintained that provides a basis for splitting costs for purchase orders for services that benefit multiple grants.

ETA Response: ETA concurs with this recommendation. ETA will work with DC DOES to assist with their development of policies and procedures requiring that adequate support is maintained for purchased orders that split costs between multiple grants.

Recommendation 8: Determine and recover any overcharges relating to the \$5,055,841 of indirect non-personnel services costs questioned that should have been charged to ETA grants based on FARS actual labor distributions; recover \$2,833,589 representing the net increase to ETA grants for the journal vouchers that DC DOES could not support; recover \$957,661 in personnel services expenses charged to ETA grants for the 15 employees whose hours were based on estimates; and recover \$6,729 charged to ETA grants for invoices split among multiple grants that DC DOES could not support.

ETA Response:

ETA will work with DC DOES to determine and recover any expenses that were incorrectly charged to ETA's grants.

Appendix E

DC DOES Response to Draft Report

GOVERNMENT OF THE DISTRICT OF COLUMBIA

Department of Employment Services

VINCENT C. GRAY
MAYOR



LISA M. MALLORY
DIRECTOR

March 21, 2013

Elliot P. Lewis
Assistant Inspector General for Audit
U.S. Department of Labor
Office of the Inspector General
Washington, DC 20210

**RE: District of Columbia Department of Employment Services Discussion Draft Report
No.: 03-13-001-03-315, Audit of Federal Funds: Audit Period: October 2008 through
December 2012, Agency Response**

Dear Mr. Lewis:

The District of Columbia Office of the Chief Financial Officer (OCFO) and Department of Employment Services (DOES) have reviewed the Discussion Draft issued on February 21, 2013 concerning the US Department of Labor (DOL), Office of the Inspector General (IG), audit of federal funds received from the DOL Employment and Training Administration (ETA).

Both OCFO and DOES accept the five (5) audit findings included in the audit report.

1. DOES did not charge actual indirect NPS fixed costs to ETA grants,
2. DOES could not provide adequate support for 49 journal vouchers,
3. DOES employees working on multiple grants used estimated time to charge ETA grants,
4. Administrative, Support and Technical (AS&T) costs for OCFO Staff charged to ETA grants were not accurate, and
5. Invoices for non-personnel services (NPS) expenditures did not have support on how costs were split among multiple grants.

Further, it was recognized that lack of adequate supporting documentation was a recurrent theme throughout the Audit report. This combined with staff turnover and the resultant loss of institutional memory, resulted in a diminished capacity to reconstruct previous actions. These factors played a critical role in our acceptance of these findings.

To this end, the OCFO Government Operations Cluster (GOC) (who assumed oversight of DOES on October 1, 2012) has worked collaboratively with DOES to develop and implement targeted corrective actions that address each finding in its entirety and has detailed these corrective actions in the attached "Official Response to DOL Audit Findings and Corrective Action Plan" document.

GOC has additionally implemented several strategic reforms that are designed to ensure long-term compliance with OMB and DOL requirements and regulations. These reforms include:

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- Restructuring the DOES financial staff to ensure that the organization is adequately resourced and costs are charged to federal funds appropriately.
- The addition of a Program Manager, who is dedicated to ensuring fiscal compliance with OMB Circular A-87, DOL ETA grants regulations and the revision of internal policies and procedures for grants management.
- The development and submission of a comprehensive Cost Allocation Plan (CAP) that details the allocation methodology of central services fixed costs and the processes for managing program and administrative costs charged to federal funds.
- The restructuring of the DOES budget in the District System of Accounting and Reporting (SOAR) general ledger to match the structure of ETA grants to improve the budgeting, accounting and reporting of federal funds.

These measures, in addition to the corrective actions detailed in the attached, ensure that an adequate level of resources are assigned to the on-going management of federal funds and mitigates the risks of future financial findings concerning DOES grants management.

We are confident that all deficiencies in the financial management of ETA funds have been addressed going forward and that through the corrective actions and reformative measures, DOES will be in full compliance with the federal costs principles and related DOL regulations concerning DOES grants. We also intend to internally monitor compliance and review the effectiveness of the corrective actions and reformative measures, as necessary. We look forward to the ETA Regional Office's review of the final audit report and the actions required to remediate the associated findings.

Sincerely,



Lisa M. Mallory
Director

Enclosure

cc: Mohamed A. Mohamed, District of Columbia, Office of the Chief Financial Officer
Lenita Jacobs-Simmons, U.S. Department of Labor

**GOVERNMENT OPERATIONS CLUSTER
DEPARTMENT OF EMPLOYMENT SERVICES FINANCE
US DEPARTMENT OF LABOR, INPECTOR GENERAL AUDIT**

OFFICIAL RESPONSE TO DOL AUDIT FINDINGS AND CORRECTIVE ACTION PLAN

1. DOES did not charge actual indirect NPS fixed costs to ETA grants.

Nature: This is an OCFO finding where fixed costs budgeted allocations to grants were not consistently adjusted to the actual allocation as required by OMB Circular A-87

DOL Recommendation: (1) Comply and improve upon policies and procedures for fixed costs allocations and adjustment to actual including documentation of adjustments. (2) From FY09 through FY11, determine actual amounts that should have been charged based on an allocation true-up to what was charged and recover any overcharges.

Response to DOL recommendation

1. Comprehensive review was conducted and revised as per Corrective Actions noted below.
2. Lack of availability of adequate supporting documentation and institutional memory (a recurrent theme in the Audit Findings)

Potential Fiscal Impact: \$5.1M

*** DOES Program staff and OCFO Finance staff accept this finding.**

Corrective Actions:

At beginning of FY 2013, GOC conducted a comprehensive review of existing policies and procedures. Among the changes related to this finding include the following:

1. The AS&T allocation has been revised and the allocation based on direct charged time and effort is being allocated back to all funding streams on a quarterly basis.
2. Fixed Costs are no longer automatically expensed to Federal Funding. They are pooled to a Fund Detail Level and then charged to Federal Funds based on actual expense incurred. This eliminates the need for adjustments.
3. DOES Finance now requires source documents in order to validate fixed cost expenditures. On a monthly basis, a dedicated Finance Manager is now responsible for reviewing and ensuring the accuracy of individual line items billed by the Central office.

2. DOES could not provide adequate support for 49 journal vouchers.

GOVERNMENT OPERATIONS – DEPARTMENT OF EMPLOYMENT SERVICES
REVIEW OF FINDINGS AND CORRECTIVE ACTIONS

Nature: This is an OCFO finding where adjustments made to the grants were not properly supported. This will be addressed by providing the appropriate documentation prior to the issuance of the final report.

Recommendation: (1) Recover \$2.8M in unsupported charges to the grants. (2) Comply with policies and procedures requiring adequate documentation of journal vouchers that provide basis for transactions charged to the grants.

Response to DOL recommendation

1. Lack of availability of adequate supporting documentation and institutional memory (a recurrent theme in the Audit Findings)
2. Compliance has been achieved as per Corrective Actions outlined below.

Potential Fiscal Impact: \$2.8M

*** DOES Program staff and OCFO Finance staff accept this finding.**

Corrective Actions:

Consistent with the GOC policies for approving and maintaining journal entries, the new Controller for DOES now ensures that policies related to the adequacy of supporting documentation are strictly followed. These include journal entries related to:

1. Reclassification of and adjustments to federal expenditures
2. Payment entries
3. Cash expenditures
4. Accrued expenditures
5. Non-Personnel Services (NPS) expenditures.

Further, supporting documentation must be reviewed and approved before entry into the District's financial system. DOES has taken active steps to ensure the proper retention and easy availability of all source documents. DOES Program staff and OCFO Finance staff have created an electronic filing system to scan all documents in a shared folder. Unemployment Insurance documents are stored separately in this system to ensure alignment with the Resource Justification Model (RJM).

3. DOES employees working on multiple grants used estimated time to charge ETA grants.

Nature: This is a programmatic finding where DOES FTE were charging time according to a pre-determined allocation to grants instead of the actual hours worked grants.

DOL Recommendation: (1) Recover \$856K in PS charges charged to grants where 15 employees estimated hours. (2) Develop policies & procedures requiring employees to charge time based on actual hours worked and/or ensure that time is adjusted to actual time worked when an allocation is used.

Response to DOL recommendation

GOVERNMENT OPERATIONS – DEPARTMENT OF EMPLOYMENT SERVICES
REVIEW OF FINDINGS AND CORRECTIVE ACTIONS

1. Lack of availability of adequate supporting documentation and institutional memory (a recurrent theme in the Audit Findings)
2. Compliance has been achieved as per corrective actions outlined below.

Potential Fiscal Impact: \$856K

*** DOES Program staff and OCFO Finance staff accept this finding.**

Corrective Actions:

Effective October 1 2012, the OCFO transitioned from FARS to PeopleSoft as its time and labor distribution system.

Finance initiated training sessions to ensure that all staff understood how to enter time based on time distribution and PeopleSoft Combination Codes. The majority of DOES Program staff and OCFO Finance staff are currently entering their time according to this PeopleSoft Combination Code system. Additionally, OCFO Finance staff will conduct quarterly refresher training on the use of the system beginning in April 2013. Finally, the OCFO Finance staff will sample PeopleSoft Combination Code payroll information both before and after posting to analyze compliance.

The training was also aimed at ensuring that the correct codes would be chosen and that DOES employees understood the importance of accurately recording their time. The OCFO team plans to establish periodic refreshers to ensure that time is being entered appropriately. Also, OCFO is establishing measures to consistently review approved time to check for any inconsistencies.

4. AS&T costs for OCFO Staff charged to ETA grants were not accurate.

Nature: This is an OCFO finding related to Shared Services FTE being charged to DOES but not 100% dedicated to DOES finance.

DOL Recommendation: (1) Calculate the proper AS&T charges for OCFO employees that should have charged time to ETA grants and recover overcharges.

Response to DOL recommendation

1. Lack of availability of adequate supporting documentation and institutional memory (a recurrent theme in the Audit Findings)

Potential Fiscal Impact: \$(43K)

*** DOES Program staff and OCFO Finance staff accept this finding.**

Corrective Actions:

As a result of the transition of DOES Finance Staff from the EDRC Cluster to the GOC the shared services model used by EDRC was discontinued.

This situation is now fully rectified. All finance staff paid for by DOES are onsite and 100% dedicated to DOES.

GOVERNMENT OPERATIONS – DEPARTMENT OF EMPLOYMENT SERVICES
REVIEW OF FINDINGS AND CORRECTIVE ACTIONS

5. Invoices for NPS expenditures did not have support on how costs were split among multiple grants.

Nature: This is an OCFO and Program finding where the percentage allocation of procurements is not consistently documented in communications from program to OCFO before funding a requisition.

Recommendation: (1) Recover \$6,729 in charges for split funded PO's that could not be supported by DOES. (2) Develop policies and procedures requiring adequate documentation serving as basis to split costs of purchase orders charged to the grants.

Response to DOL recommendation

1. Lack of availability of adequate supporting documentation and institutional memory (a recurrent theme in the Audit Findings)
2. Compliance has been achieved as per Corrective actions outlined below.

Potential Fiscal Impact: \$7K

*** DOES Program staff and OCFO Finance staff concur with this finding.**

Corrective Actions:

DOES Finance has decided to implement procedures whereby specific and relevant forms must be completed for all split funded obligations. The design of these forms will require the individual making the request to justify the percentage of costs that must be allocated to each funding stream and signed by the requestor and the manager. It is also a requirement to attach the signed forms to all purchase requisitions in the District Procurement system – PASS.

Appendix F

Acknowledgements

Key contributors to this report were Michael Hill (Audit Director), Michael Elliott (Audit Manager), Barry Weiss, Theodore Lawson, Goleda Sutton-Watson, Janet Cucunato, Miguel Hughes, and Ajit Buttar.

TO REPORT FRAUD, WASTE OR ABUSE, PLEASE CONTACT:

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