Texas Workforce Commission

Member of the Texas Workforce Network

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2004 APR 12 AM 11:00
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Diane D. Rath, Chair
Commissioner Representing the Public

Ron Lehman
Commissioner Representing Employers

Ronald G. Congleton
Commissioner Representing Labor

Larry E. Temple
Executive Director

April 8, 2004

Mr. Michael T. Hill
Regional Inspector General for Audit
Office of Inspector General
Philadelphia Regional Audit Office
Public Ledger Building, Suite 1072
150 S. Independence Mall West
Philadelphia, PA 19106

Dear Mr. Hill:

Please find enclosed the Texas Workforce Commission's (TWC) input to the U. S. Department of Labor, Office of Inspector General Audit of Direct and Indirect Costs as requested in your letter of March 19, 2004. TWC appreciates the opportunity to review and address the report findings.

Enclosed are responses to the report findings. If you have any questions, or need additional information, please contact Randy Townsend, Chief Financial Officer, at (512) 463-2698.

Sincerely,

Larry E. Temple
Executive Director

Enclosure

cc: Diane Rath, Chair and Commissioner Representing the Public
Ron Lehman, Commissioner Representing Employers
Ronald G. Congleton, Commissioner Representing Labor

TEXAS WORKFORCE COMMISSION
RESPONSE TO
AUDIT OF DIRECT AND INDIRECT COSTS CHARGED
TO EMPLOYMENT AND TRAINING GRANTS
AWARDED BY U.S. DEPARTMENT OF LABOR
SEPTEMBER 1, 1997, THROUGH AUGUST 31, 2001

Overall TWC Response:

By September 1, 2004, the Texas Workforce Commission (TWC) plans to fully implement the process of using actual amounts in determining the Financial Cost Allocation Tables (FCAT) percentages each month. Since this process will allocate actual monthly costs to the benefiting programs, there will no longer be a need for any after the fact adjustment of estimated costs. TWC will also continue to evaluate agency expenditures and cost allocation methods to ensure that the most equitable allocation basis is being used.

By July 1, 2004, Finance staff will complete a review of employees with multi-funded time charges and make any necessary corrections to ensure the accurate recording of their time charges. By September 1, 2005, TWC plans to implement a new automated time reporting system that will enhance controls for accurately reporting employee time charges.

The following adjustment of estimated allocated costs to actual are summarized below:

Summary FCAT Adjustments

	DOL	Other Federal	State
FY 1999	606,069.68	(633,465.38)	27,395.70
FY 2000	(237,050.25)	140,101.37	96,948.88
FY 2001	105,233.71	(248,361.68)	143,127.97
FY 2002	896,541.82	(823,783.25)	(72,758.57)

The details supporting these adjustments have been provided to the auditors for their review.

DOL Finding 1 (Draft Audit Report, Page 10)

FCAT costs were directly charged to DOL and other programs on the basis of historical data. Any allocation base using historical data causes the allocation to become a cost estimate. In response to our inquiries, we were informed by TWC officials that TWC did not adjust the $40.4 million in estimated FCAT costs charged to DOL/ETA grants to actual costs for the period audited, i.e., SFYs 1999, 2000, and 2001, as required by OMB Circular A-87. This occurred because TWC did not establish and implement internal controls to ensure the adjustments were made when FCATs were implemented.

TWC Response

The Financial Cost Allocation Tables (FCAT) methodology was created to ensure the allocation of costs on the basis of "relative benefits received" consistent with OMB Circular A-87. While TWC has adjusted FCAT allocations to actual for Fiscal Years 1999-2003, the 1999 FCAT allocations for Mainframe costs were not adjusted to actual. We agree the Mainframe FCAT allocation that was based on usage for a single day in 1999 was not adequate. In 2000, TWC purchased Mainframe utilization software to track actual activity that allows for the proper adjustment of Mainframe-related costs. We have estimated that if this Mainframe utilization software had been in place during FY 1999, the DOL grants would have been charged an additional 6.42% or approximately $460,000. However, we believe that it would not be appropriate to adjust the FY 1999 Mainframe FCAT allocation since actual data for that year is not available.

DOL Finding 2 (Draft Audit Report, Page 12)

OMB Circular A-87 requires that labor charges be based on the actual time worked especially by those employees working on more than one project, not estimated time worked. Our audit disclosed that TWC does not always have adequate supporting documentation for direct labor costs for employees who worked on more than one program/cost objective. TWC was aware of this problem because TWC's internal auditors reported the situation repeatedly during audits of SFYs 1997, 1998, and 2000. While TWC internal auditors completed a report for SFY 1999, we did not review the report results. TWC corrective actions over the past few years have not eliminated the problem. Based on our review of a judgmental sample of 43 employee Daily Personnel Activity Reports for SFY 2000, the problem continues to exist. As a result, TWC cannot ensure that direct labor costs were properly charged to DOL ETA grants. TWC was reimbursed approximately $228.7 million by DOL in direct salaries and fringe benefits for employees working on more than one project during SFY 1998, 1999, 2000 and 2001.

TWC Response

TWC has taken a number of steps to improve controls over timekeeping. Time Distribution procedures have been updated and made available to all employees. Monthly reminders are sent to all employees to ensure that accurate time charges are being reported. TWC continues to reinforce the importance of reporting actual time worked. An audit recently completed by TWC internal auditors found that only 3% of timesheets had errors resulting in an overcharge to federal programs of $2.48.

Additionally, Finance staff is currently completing a review of all multi-funded time charges reported in FY 2003. Any incorrect time charges identified in this review will be adjusted based on actual worked programs. Additional training and monthly random sampling of multi-funded time charges reported will be completed. We are also developing a new time reporting system that will enhance internal controls over employee reported time charges.