DATE: December 20, 2004

MEMORANDUM FOR: SAMUEL T. MOK
Chief Financial Officer

Elliot P. Lewis

FROM: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

SUBJECT: United States Department of Labor Report on Findings and Recommendations Identified in an Audit of the Report on Performance and Accountability, September 30, 2004
Final Report No. 22-05-001-13-001

Attached is the final CFO findings and recommendations report, resulting from an audit of the Department of Labor's Report on Performance and Accountability as of and for the year ended September 30, 2004. The Office of Inspector General contracted with R. Navarro & Associates, (RNA) Inc., an independent public accounting firm, to perform this audit. The contract required that the audit be done in accordance with auditing standards generally accepted in the United States of America (GAAS), Government Auditing Standards (GAS), and Office of Management and Budget audit requirements.

This report contains findings and recommendations pertaining to reportable conditions and management advisory comments. The auditor's did not report any noncompliance with laws and regulations. Also, this report does not contain any findings and recommendations pertaining to the Department's general and security controls over EDP systems. EDP findings and recommendations were issued in a separate report to the Chief Information Officer.

We reviewed RNA's report and related documentation and inquired of its representatives. However, RNA is responsible for the attached CFO findings, recommendations, and the conclusions expressed in this report. Our review disclosed no instances where RNA did not comply, in all material respects, with auditing standards generally accepted in the United States of America (GAAS), Government Auditing Standards (GAS), and Office of Management and Budget audit requirements.

Management's responses have been included in their entirety after each recommendation. Please provide a corrective action plan for each of the unresolved recommendations presented in the final report by March 31, 2005. Please notify us when corrective action has been completed on any particular recommendation. The adequacy of the corrective actions taken will be reviewed as part of the FY 2005 performance and accountability audit. If you have any questions, please contact Mike McFadden, Office of Accountability Audits, on 693-5144.

Attachment

cc: Steven J. Law
Patrick Pizzella
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Department of Labor

Office of Inspector General—Office of Audit

DOL PERFORMANCE AND ACCOUNTABILITY REPORT

U.S. DEPARTMENT OF LABOR FINDINGS AND RECOMMENDATIONS IDENTIFIED IN AN AUDIT OF THE REPORT ON PERFORMANCE AND ACCOUNTABILITY

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

Elliot P. Lewis

Assistant Inspector General for Audit

Date Issued: December 20, 2004
Report Number: 22-05-001-13-001

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ACRONYMS

A&E	Architecture and Engineering
ACS	Affiliated Computer Services Inc.
APO	Accountable Property Officer
ASC	Ambulatory Surgical Center
AWIA	Acquisition Workforce Improvement Act
BAM	Benefit Accuracy Measurement
BPA	Blanket Purchase Agreement
BPC	Benefit Payment Control
CAMO	Capitalized Asset Management Officer
CATARS	Capitalized Asset Tracking and Reporting System
CE	Claims Examiner
CFO	Chief Financial Officer
CIP	Construction in Progress
CTS	Career Transition Service
CY	Calendar Year
DBFS	Division of Budget and Facilities Support
DCMWC	Division of Coal Mine Workers’ Compensation
DGR	Detailed Grant Report
DLHWC	Division of Longshore and Harbor Workers’ Compensation
DLMS	Department of Labor Manual Series
DOL	U. S. Department of Labor
DOLAR$	Department of Labor Accounting and Related Systems
EIMS	Enterprise Information Management System
EPMS	Electronic Property Management System
EPS	Electronic Procurement System
ESA	Employment Standards Administration
ETA	Employment and Training Administration
ETO	Employment and Training Order
FAR	Federal Acquisition Regulations
FECA	Federal Employees Compensation Act
FY	Fiscal Year
GAO	Government Accountability Office
GPRA	Government Performance and Results Act
IT	Information Technology
LHWCA	Longshore and Harbor Workers’ Compensation Act
JCDC	Job Corps Data Center
JFMIP	Joint Financial Management Improvement Program
JTPA	Job Training Partnership Act
MCA	Managerial Cost Accounting
OASAM	Office of the Assistant Secretary for Administration and Management
OCFO	Office of the Chief Financial Officer
OFAS	Office of Financial and Administrative Services
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPS	Office of Procurement Services
OWCP	Office of Workers' Compensation Programs
OWS	Office of Workforce Security
PER	Periodic Entitlement Review

ACRONYMS
(Continued)

RMO	Responsible Mine Operator
SOP	Standard Operating Procedure
SFFAS	Statement of Federal Financial Accounting Standards
UCAC	Unemployment Compensation Advisory Council
UI	Unemployment Insurance
UIDV	Unemployment Insurance Data Validation
UIS	Unemployment Insurance Service
WCF	Working Capital Fund
WIA	Workforce Investment Act
WOW	Workload Organization Window

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Mr. Samuel T. Mok
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Washington, DC 20210

Independent Auditors' Report on Findings And Recommendations Identified in an Audit of the Report on Performance and Accountability

We have audited the Report on Performance and Accountability of the United States Department of Labor (DOL) for the year ended September 30, 2004, and have issued our report thereon dated November 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statement audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered DOL's internal control over financial reporting by obtaining an understanding of the Department's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted certain matters, discussed in the following pages, involving the internal control and its operations that we consider to be reportable conditions and other conditions considered as management advisory comments.

With respect to internal control related to performance measures reported in the Department's fiscal year (FY) 2004 Performance and Accountability Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined whether they have been placed in operation, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls. This report does not contain current or prior year findings and recommendations pertaining to our audit of the Department's general controls and security over Information Technology (IT) systems that support the financial statements in accordance with Government Accountability Office (GAO) audit guidelines. A separate report was issued on October 18, 2004, to the Chief Information Officer containing IT related findings and recommendations for resolution.

The Independent Auditors' Report, which expresses our opinion on the fair presentation of DOL's Fiscal Years 2004 and 2003 principal financial statements, and our reports on internal control and compliance with laws and regulations, is presented in the Department's FY 2004 Performance and Accountability Report.

In order to provide information to management that could help in the development of responses and corrective actions for the instances of noncompliance and reportable conditions and other conditions noted (Management Advisory Comments), we are providing the following findings and recommendations to the Chief Financial Officer (CFO).

This report is intended solely for the information and use of the management of the Department of Labor, OMB and Congress, and is not intended to be used and should not be used by anyone other than these specified parties.

November 15, 2004

R. Navarro & Associates, Inc.

Reportable Conditions

1. Property and Equipment

Status of Prior Year Findings and Recommendations

Job Corps Real Property

In the FY 2003 DOL Audit (DOL Report No. 22-04-002-13-001), the Office of Inspector General (OIG) reported that the Employment and Training Administration (ETA) did not sufficiently utilize the Capitalized Assets Tracking and Reporting System (CATARS) as a complete property management system in accordance with the CATARS user guide. We also found that ETA did not establish sufficient controls to ensure that Job Corps' capitalized real property was safeguarded and accurately reported in CATARS and the Department of Labor Accounting and Related Systems (DOLAR$). We made the following recommendations:

We recommended the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that:

- ***An annual physical inventory of all Job Corps real property is performed and the inventory results reconciled to CATARS and DOLAR$.***

In response to this finding, ETA stated that its Office of Financial and Administrative Services (OFAS) agreed with Job Corps' Division of Budget and Facilities Support (DBFS) to have DBFS' Architecture and Engineering (A&E) contractor conduct a physical inventory of the Job Corps capitalized real property as part of the contractor's routine center review. ETA stated that this task was accomplished January 2004 and it is to be completed annually by the end of the calendar year.

The U.S. DOL CATARS User Guide, Sections 2.7 and 2.72, state respectively:

> Annual reconciliations must be performed between physical counts of property and balances recorded in the CATARS and DOLAR$ systems.
>
> Physical counts of property are conducted at the end of each fiscal year to compare the capitalized assets recorded on the books with those actually on site.

We confirmed that ETA conducted a physical inventory and we found that ETA developed draft procedures that require annual physical inventories be performed. However, we determined that the physical inventory was incomplete; the draft procedures require the physical inventories be performed at the end of the calendar year, whereas the CATARS User Guide requires fiscal year inventories; and ETA did not establish a date for implementing the draft procedures in final form.

The physical inventory was not a complete inventory because it did not include all the items listed in CATARS. We found that ETA used the CATARS "Physical Inventory Report" to conduct the inventory. We reviewed this report and noticed that items with vague descriptions were not listed even though they were on the CATARS "Detail Balance Report". These items are described in CATARS as as "bb", "A/E numbers", Job Corps Center name, etc. ETA assumed the inventory report they were using contained all the Job Corps real property but agreed with our conclusion that the inventory did not contain items with vague descriptions. We did not determine why the items with vague descriptions were not in the CATARS "Physical Inventory Report." Using the CATARS Detail Balance Report dated March 31, 2004, we found there were 700 Job Corps real property items in CATARS with vague descriptions. These items should be properly described and included in the inventory so that ETA can determine whether or not they are capitalized assets that should be reported in the DOLAR$ subsdiary ledger – CATARS.

ETA provided us a copy of their draft National Accounting Policies and Procedures Manual. Section 4.5.2, Capitalized Assets, contains a requirement that a physical inventory of all Job Corps real property be performed annually. However, we reviewed the draft policies and procedures and found they need to include how the inventory is to be conducted. Additionally, ETA did not provide a plan for implementing the policies and procedures that will ensure they are communicated to supervisors and employees, actually applied, and applied properly.

The recommendation remains **unresolved.** To resolve the recommendation, ETA needs to provide a corrective action plan, including dates for completing the plan. The plan needs to address the following:

1. How ETA will address the items with vague descriptions to ensure they are included in the physical inventory and how appropriate adjustments will be made to CATARS and DOLAR$.

2. The planned date for making the appropriate adjustments to CATARS and DOLAR$ based on the results of the inventory already taken.

3. The timing of the physical inventory.

4. How they will communicate the final National Accounting Policies and Procedures Manual to the individuals responsible for performing the inventory to be conducted by the end of each calendar year and reconciling the results to CATARS and the General Ledger.

5. The planned date for finalizing and implementing the National Accounting Policies and Procedures Manual, Section 4.5.2.

Management's Response

"Management concurs with the OIG findings of deficiencies in the FY 2003 physical inventory of Job Corps real property. OFAS will work with Jobs Corps management to develop an efficient and cost-effective method of accomplishing these inventories at the centers. These inventories will have to be performed probably on a staggered schedule, rather than simultaneously. If necessary, ETA will request revisions or waivers for applicable DLMS [Department of Labor Manual Series] chapters and the CATARS User Guide regarding the scheduling of the Job Corps center inventories. Once these issues are resolved, management will issue revised inventory procedures and commence the annual inventory process. At this time management expects to schedule physical inventories in the latter half of the fiscal year to provide time to resolve the problem of improperly described assets (addressed below). It is anticipated that this process will be completed by September 30, 2005."

Auditors' Conclusion

The recommendation remains **unresolved.** To resolve the recommendation, ETA needs to provide a corrective action plan addressing each of the five points specified in the finding and the dates for completing the plan.

.

- ***Additions and dispositions are recorded timely in CATARS by developing and implementing quarterly procedures to:***

  - ***transfer CIP balances recorded in CATARS to the appropriate depreciable asset account, where the DBFS records of contracts/structures indicate that Certificates of Substantial Completion have been issued;***

  - ***reconcile DBFS records for dispositions to the A&E contractor records and to entries in CATARS; and***

  - ***reconcile DBFS records of additions and deletions to OFAS records of additions and deletions recorded in CATARS.***

Our FY 2004 audit found that ETA's draft National Accounting Policies and Procedures Manual, Capital Assets section, contained procedures to ensure additions and dispositions are recorded timely in CATARS. However, ETA has not provided the date when they plan to finalize and implement the draft procedures.

Additionally, we found the prior year's findings continue to exist. Specifically:

<u>Additions</u>

Our review of the Job Corps construction in progress (CIP) account showed it still contains completed capitalized construction projects. Specifically, we found the following.

1. Of the 22 completed contracts identified in the prior year finding, 6 are still in CIP as of March 31, 2004. The six contracts total $1.3 million.

2. As of March 31, 2004, the total number of contracts in CIP was 164 with an approximate value of $130 million. To date, we have identified 13 CIP contracts that have been completed and should have been moved from CIP to the building or leasehold improvement account. The value of these completed projects was $44.3 million.

<u>Dispositions</u>

Our audit found that Job Corps' center buildings disposed of or no longer in service are being reported in CATARS as depreciable assets. Specifically, we found the following.

1. The CATARS inventory as of March 31, 2004, showed that 11 of the 13 assets cited as disposed in our FY 2003 audit were still being reported in CATARS. The value of these assets, net of accumulated depreciation, totaled $277,977.

2. For the 12 Job Corps centers visited during our FY 2004 audit, we selected a statistical sample of 121 depreciable real property items from CATARS as of March 31, 2004. The value of these assets, net of accumulated depreciation, was $41,229,947. The auditors found that six items totaling $214,535, net of accumulated depreciation, were disposed or no longer in use. Additionally, the auditors found three buildings on CATARS that were outside the sample, that were either vacant or demolished. The value of these buildings, net of accumulated depreciation, was $1,058,525.

The recommendation remains **unresolved**. To resolve the recommendation, ETA needs to provide a corrective action plan specifying the planned dates for implementing National Accounting Policies and Procedures Manual and implement the procedures so that immediate corrective action can be taken.

Management's Response

"OFAS will work with Job Corps management to develop more efficient procedures to ensure that documentation regarding acquisitions, CIP projects and Job Corps center dispositions is received timely by the CAMO [Capitalized Asset Management Officer] for entry into CATARS. The strategy will be to identify current Job Corps information flows, which can be modified to provide the necessary documentation to OFAS while imposing the minimum cost and impact on Job Corps operations and personnel. OFAS is already moving aggressively to obtain the proper documentation for the projects currently in the construction in progress module showing costs of 90% or more of contract budget. ETA plans to finalize and issue the procedures by December 31, 2004."

Auditors' Conclusion

The recommendation is **resolved and open** pending ETA's finalization and issuance of the revised procedures, and verification in the FY 2005 audit that the procedures implemented are effective and ensure additions and dispositions are recorded timely in DOLAR$ and CATARS.

- ***Procedures are implemented to ensure that sufficient descriptive details of all capitalized property items are obtained and corrected in CATARS for existing property, and the details are added to CATARS for future acquisitions.***

We found that procedures have not been developed to ensure that all descriptive details of all capitalized property items are obtained and corrected in CATARS for existing property and all future acquisitions. We also found that the condition of vague property descriptions continues to exist.

For the 12 Job Corps centers visited during our FY 2004 audit, we statistically selected 121 real property items from the March 31, 2004, CATARS inventory. We used the CATARS description to attempt to verify the existence of each real property sample item. We found that 44 of the 121 (36 percent) real property items in the sample were not adequately described which prevented the auditor from verifying existence. The value of these assets, net of accumulated depreciation, totaled $10,109,257. We provided our sample to Job Corps' A&E contractor because they have detailed non-financial records on Job Corps' center property. The A&E contractor was not able to provide any additional information on 25 of the 44 sampled items. The auditors were still unable to verify existence for some of the sampled items the A&E contractor was able to provide additional information.

We also compared our sample to the site surveys performed by Job Corps' A&E contractor. The surveys list and name all the buildings at the center and provide information to locate specific buildings. We found the CATARS was not consistent with information in the site surveys. For example, for the Laredo Job Corps Center, CATARS lists only one line item as "Site (Holding Campus)" for $5,307,176. However, according to the Job Corps' A&E contractor site survey, there are 15 buildings at the Laredo Job Corps Center. In another example, we found that the Iroquois Job Corps Center has only three line items, two are for a septic system upgrade, and one is an A&E contract for $5,143. However, according to the Job Corps' A&E contractor site survey, there are 19 buildings at the Iroquois Job Corps Center.

ETA explained that some of the items that are not adequately described might be design costs for buildings or improvements. However, we found that procedures were not developed and implemented to ensure that design costs for specific buildings or improvements were associated with and capitalized as part of the total cost of each specific building or improvement. Design costs for capitalized real property should be included in the cost of the property and be depreciated over the estimated useful life of the property. We do not take exception to ETA setting up separate items for design costs, as long as the description of the asset is clear, the date it was placed in service is correct, and the useful life mirrors that of the property with which the A&E design costs are associated. This will also ensure that design costs that do not result in a capitalized building or improvement are not added to CATARS as a capitalized asset and depreciated and are instead expensed. DBFS and OFAS officials informed us that design costs are not always allocated to specific buildings, and they do not have a methodology to do such an allocation.

The recommendation remains **unresolved**. To resolve the recommendation, ETA needs to provide a corrective action plan for developing and implementing procedures to ensure that sufficient descriptive details of all capitalized property items are obtained and corrected in CATARS for existing property, and the details are added to CATARS for future acquisitions. The corrective action plan needs to include the planned date for implementing the procedures.

Management's Response

"OFAS is working with Job Corps management and the Job Corps A&E contractor to identify the CATARS items with inadequate descriptions. Resolution of this situation will require significant research into OFAS contract files and Job Corps A&E files and databases, and plans to complete this effort by September 30, 2005. Currently, OFAS is taking steps to ensure that no further inadequate entries are made to CATARS, including educating CAMOs and APOs [Accountable Property Officer] on the requirements for recording capitalized property and management review of CATARS entries."

Auditors' Conclusion

The recommendation remains **unresolved**. To resolve the recommendation, ETA's corrective action plan needs to provide more specific information as to the procedures that will be implemented to prevent inadequately described assets from being entered into CATARS, and the planned dates for implementation.

- ***Total land costs are recorded in CATARS and allocated to the specific Job Corps center***

In response to the recommendation, ETA stated it would make certain that current and future land acquisitions, which meet the capitalization threshold, are entered into CATARS. ETA explained that in many cases real property is acquired without differentiation between buildings and land. Furthermore, there are also instances where land is acquired from a state or local government for a nominal fee. To address these aspects of land acquisition, ETA stated that it implemented a practice whereby Job Corps' A&E contractor will capture and report land separately on future real property acquisitions. For some existing land not currently captured in CATARS, ETA stated it has obtained information, from Job Corps' A&E contractor, that will support its efforts to ensure total land costs are reported in CATARS.

We found problems with ETA's documentation supporting the land value recorded in CATARS and DOLAR$. ETA provided a spreadsheet compiled by Job Corps' A&E contractor that showed the dollar value of land for each Job Corps center. However, the number of centers listed on the spreadsheet did not reconcile to the number of DOL Job Corps' centers. Additionally, there were questions of how the dollar value of the land was determined. ETA has not ensured that all land has been properly valued and included in CATARS in accordance with the Statement on Federal Financial Accounting Standard (SFFAS) No. 6.

The recommendation is **resolved and open**. We concurred with ETA's corrective action plan for recording and allocating land in CATARS. However, the recommendation remains open until ETA provides support for the land values that were allocated to the Job Corps' centers in accordance with SFFAS No. 6 and implements the draft policies and procedures manual as final.

Management's Response

"OFAS will work with Job Corps management to correct the deficiencies in the land cost schedule and correct the CATARS entries as necessary by September 30, 2005."

Auditors' Conclusion

The recommendation remains **resolved and open** until ETA accurately records Job Corps' land values in DOLAR$ and CATARS in accordance with SFFAS No. 6, and implements its draft policies and procedures as final.

- ***Procedures are implemented to ensure that property recorded in CATARS is reconciled monthly to property recorded in DOLAR$, and all adjustments identified in the reconciliation process are recorded on a timely basis.***

In response to the recommendation, ETA stated that monthly reconciliations have been performed using the automated report produced by CATARS and the appropriate CATARS month-end reports. ETA further stated that they are taking the approach consistent with the CATARS Users Guide for performing monthly reconciliations to identify and resolve differences between CATARS and DOLAR$. This process was to be implemented May 2004.

Our FY 2004 audit disclosed the process has not been implemented. During our FY 2004 audit we also found that there is a $4.4 million difference in the Equipment Account between DOLAR$ and the two subsidiary ledgers used for Job Corps' equipment – CATARS and Job Corps' Electronic Property Management System (EPMS). The difference showed that DOLAR$ was overstated.

Two subsidiary ledgers are used for Job Corps capitalized equipment. The EPMS is used to record personal property located at the Job Corps' centers. The EPMS is maintained by Job Corps at its data center in Texas. CATARS is used for all other Job Corps capitalized equipment. In order to ensure that the EPMS balance is reflected in DOL's accounting system, ETA has to obtain the balance from Job Corps and enter it into DOLAR$ as a journal entry.

To reconcile the DOLAR$ equipment account to the subsidiary ledgers, we totaled the capitalized equipment balances in CATARS and the EPMS and then compared that total to the amount in the DOLAR$ Equipment Account. We found DOLAR$ was overstated by $4.4 million. ETA could not explain the cause for the difference but at the end of our fieldwork, they were still in the process of researching it.

The recommendation remains **unresolved**. To resolve the recommendation, ETA needs to provide a corrective action plan which ensures that property recorded in CATARS is reconciled monthly to property recorded in DOLAR$, and all adjustments identified in the reconciliation process are recorded on a timely basis. The corrective action plan also needs to provide the planned implementation date.

Management's Response

"Management implemented monthly reconciliations of CATARS to DOLAR$ in May 2004. The initial reconciliation revealed relatively small-unidentified differences, as noted by the OIG in their finding. Management is working to identify and resolve the individual transactions making up these differences, but at year-end had not completed this project. Completion of this project is anticipated by September 30, 2005."

Auditors' Conclusion

The recommendation is **resolved and open** pending completion of ETA's project to identify and resolve differences in DOLAR$, CATARS, and EPMS, and verification that appropriate adjustments were recorded to each system as determined to be necessary.

Management's Overall Response to Above Findings

"Management believes that significant progress was made in correcting these items during year-end work. Most of the findings relate to problems with the data flow from program management to OFAS, not to lack of control over the assets. While these findings indicate problems with accountability over real property, this property is not subject to casual misappropriation."

Auditors' Conclusion

While we agree with management that progress was made in addressing the above findings, the conditions reported in this finding represent significant deficiencies in the design and operation of internal controls over Job Corps capitalized property. These internal controls are related to management's assertion that the recorded assets exist, all transactions recorded during the fiscal year occurred during the period; and all assets owned by the Department are included in the general ledger as of the Balance Sheet date. Therefore, it is important that management implement timely corrective action to ensure these internal controls are effectively designed, prescribed, and implemented.

Capitalized Asset Property Management

In the FY 1999 Management Advisory Comments (OIG Report No. 12-00-006-13-001), the OIG reported that management's capitalized asset tracking and reporting procedures are inadequate to ensure that disposals of capitalized assets are reported in a timely and accurate manner, and that assets are adequately safeguarded against loss or theft.

The OIG made the following recommendation:

- ***Accountable Property Officers (APOs) and Capitalized Asset Management Officers (CAMOs) receive adequate training in the disposal of capitalized assets.***

During the FY 2004 audit, we found that the Office of the Chief Financial Officer (OCFO) decided to produce a package on the requirements for disposing of capitalized assets and distribute it to the APOs and CAMOs.

This recommendation remains **resolved and open** until the package is distributed and we review and analyze the documentation.

Management's Response

"The OCFO is currently distributing the APO's and CAMO's with instructions for the disposition of assets. OCFO provided copies of the instructions to the OIG during the month of September 2004."

Auditors' Conclusion

Based on information provided by management with its response, this recommendation is **closed**.

In the FY 2001 Findings and Recommendations to the Chief Financial Officer (OIG Report No. 22-02-004-13-001), the OIG made the following additional recommendations pertaining to capitalized property:

We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that:

- ***procedures specified in the DLMS are followed for documenting the disposal of an asset at the time it is placed out of service, transferred, donated, etc., not as a means for reconciling the physical inventory; and***

- ***Accountable Property Officers and Property Management Officers follow procedures specified in the DLMS for determining liability for lost/missing, stolen, or damaged property.***

The Department is required by law to establish internal accounting and administrative controls to reasonably ensure that all assets are safeguarded against waste, loss, unauthorized use, and misappropriation (31 U.S.C. 3512 (c) (B)). When an asset is disposed of, a DL-1-55C disposal form is required to be completed by the APO and submitted to the CAMO for entry into CATARS. The disposal form should be completed at the time of disposal and indicate the date and method of disposal. The disposal method is indicated using one of several predefined disposal codes (e.g., trade-in, salvaged/scrapped, etc.).

At the agency level, we noted the following:

<u>ETA</u>

During FY 2003, ETA stated it would implement a quarterly physical inventory by the APOs, or their respective designate, to ensure that property identified for disposition is done so pursuant with these procedures. ETA's Office of Financial and Administrative Management Administrator will be notified of APOs that do not respond.

ETA also stated that OFAS did perform the annual physical inventory for FY 2003. Electronic notification was sent to the APO about the requirement to furnish the DL-1-55C Disposal Forms for changes to their property inventories. ETA will continue to follow up with the APOs or their designees to obtain the disposal forms.

Our review of CATARS disposals as of June 30, 2004, found that ETA did not report any capitalized asset disposals. We were informed by ETA that quarterly physical inventories were not performed and that ETA had not received any DL-1-55Cs as of September 2004. Without quarterly inventories and DL-1-55Cs, we were not able to determine if ETA recorded capitalized asset disposals timely and properly researched the reasons for disposal. As a result, both the recommendations, as they pertain to ETA, remain **resolved and open** pending our verification that disposals are recorded timely and processed according to DLMS requirements.

Management's Response

"Management agrees that further work is necessary to ensure that property and equipment is properly managed and accounted for. It is anticipated that this project will be completed by September 30, 2005."

Auditors' Conclusion

Both recommendations remain **resolved and open** pending verification that disposals of capitalized assets are recorded timely and processed according to DLMS requirements.

<u>OCFO (Working Capital Fund (WCF)</u>

OCFO stated that the Division of Working Capital Fund Financing will reconcile on a monthly basis the CATARS to the DOLAR$ for WCF assets to ensure the proper recording and reporting of capital assets. In addition, regular contacts will be initiated with APOs and CAMOs to reiterate the regulatory requirements to account for capital assets. OCFO also stated that it would place an emphasis on assets removed from service, as well as the subsequent accounting transactions.

Our review of CATARS disposals as of June 30, 2004, found that OCFO only reported one capitalized asset disposal. Therefore, we were not able to determine if OCFO is recording capitalized asset disposals timely and properly researching the reasons for disposal. As a result, both recommendations, as they pertain to the OCFO, remain **resolved and open** pending our verification that disposals are being recorded timely and processed according to DLMS requirements.

Management's Response

"The OCFO in conjunction with the OASAM [Office of the Assistant Secretary for Administration and Management] CAMO will be having quarterly meetings with the APO's. The first meeting will be conducted in Mid November."

Auditors' Conclusion

Both recommendations remain **resolved and open** pending verification that disposals are recorded timely and processed according to DLMS requirements.

2. Accounting for Grants

Status of Prior Year Findings and Recommendations

Grant Accounting Errors

In the FY 1999 audit (OIG Report No. 12-00-003-13-001), the OIG identified significant errors in the recording of ETA's grants. The report included the following recommendation:

- ***We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that procedures are established to ensure that errors made in recording grant information are identified and corrected on a timely basis. At a minimum, this should include review procedures for data input and utilization of exception reports which identify transactions with an unusual nature (such as negative cost entries).***

Over the years, ETA has implemented various actions in an attempt to alleviate grant accounting errors. In FY 2003, ETA issued Regional Office accounting procedures as well as Employment and Training Order (ETO) No. 1-03, *Improving Administration of Grants within the Employment and Training Administration.* ETO No. 1-03 clarifies the roles and responsibilities of ETA staff in grants administration and monitoring. In FY 2004, ETA pushed forward the interface between Electronic Information Management System (EIMS) and DOLAR$, in order to eliminate errors created in the current data transfer process. It is our understanding that EIMS is currently scheduled to interface to DOLAR$ in October 2004.

Despite the efforts made by ETA, our FY 2004 audit continued to identify errors in ETA's grants and contracts. Errors were noted at both the national office and regional offices. Our statistical sample of grants and contracts as of May 31, 2004, identified the following:

- 15 out of 136 grants tested (11.0 percent) had misstated or unsupported obligation balances. The absolute value of these errors totaled $ 8,523,449;
- 21 out of 144 grants tested (14.6 percent) had misstated or unsupported cost balances. The absolute value of these errors totaled $ 54,888,536; and
- 9 out of 151grants tested (6.0 percent) had misstated or unsupported payment balances. The absolute value of these errors totaled $ 3,043,614. Of this amount, $3,028,302 related to a grant where the same DOLAR$ document was used for two different contracts and we were unable to reconcile the contract selected to the amount recorded in DOLAR$. We requested a reconciliation of this contract, but none was provided.

We also noted obligation, cost and payment transactions that were not posted timely, and one contract for $705,741 related to improvements at a Job Corps center that should have been capitalized but was charged to operating expense.

Additional audit procedures performed as of May 31, 2004, identified differences (in grant costs) between the amount recorded in EIMS and the amount recorded in DOLAR$, as follows:

	(Absolute Value)
State Employment Security grants	$ 124,946,343
Workforce Investment Act (WIA) grants	17,211,357

In response to these findings, ETA stated the following, "ETA is addressing the various internal control problems . . . by centralizing payment operations, electronically interfacing EIMS to DOLAR$, and implementing additional preventative and detective control procedures."

This recommendation remains **unresolved**. Resolution and closure is dependent upon implementation of improved procedures for detecting and correcting potential grant errors at both the National and regional offices, completion of the EIMS interface and supporting exception reports, and a positive outcome for grant testing conducted during the FY 2005 audit.

Management's Response

"Management believes that the implementation of the DOLAR$-EIMS cost interface will have a significant effect on this finding. Not only will accuracy be enhanced by eliminating a large number of manual entries, but the staff formerly employed in making those entries can be assigned to analysis and correction procedures for costs and obligations, further increasing the accuracy of the remaining manual entries. The interface work is currently on track for a November 30, 2004 implementation."

Auditors' Conclusion

This recommendation remains **unresolved**. Resolution and closure is dependent upon the items previously identified in this finding, that is, implementation of improved procedures for detecting and correcting potential grant errors at both the National and regional offices, completion of the EIMS interface and supporting exception reports, and a positive outcome for grant testing conducted during the FY 2005 audit.

Delinquent Grantee Reporting

Over the past several years, OIG audits have identified delinquent reporting on the part of ETA's grantees and contractors. The FY 1999 audit (OIG Report No. 12-00-003-13-001) included the following recommendation:

- ***We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training establish procedures for monitoring grantee reporting. At a minimum, these procedures should provide for the timely identification of delinquent cost reports and appropriate follow up efforts with grantees.***

In recent years, ETA has made various efforts to obtain and record delinquent cost reports from its grantees. In FY 2003, ETA issued delinquency notices to selected grantees, and issued internal grant administration procedures in ETO 1-03, *Improving Administration of Grants within the Employment and Training Administration*, which clarifies the roles and responsibilities of ETA staff in grants administration and monitoring. ETA also issued written regional accounting procedures that include procedures for identifying and resolving delinquent grantee reporting. In FY 2004, ETA developed a report to identify delinquent (zero cost) grantees.

Regardless of the actions taken by ETA, significant reporting delinquencies were identified in the FY 2004 audit. The June 30, 2004, Detailed Grant Report (DGR) reflected 265 documents, with approximately $226 million in advances, where costs have never been recorded since the inception of the grant. (All of these grants were for FY 2003 or earlier, and should have costs recorded to offset the advances drawn by grantees.) These results are only slightly improved from June 2003 where the advance balances identified in this test were approximately $230 million.

In addition, the DGR reflected 442 documents with approximately $225 million of beginning advance balances (e.g., balances carried over from FY 2003), but no costs were recorded in FY 2004. In fact, the advance balances for these 442 documents increased from $225 million at September 30, 2003, to approximately $349 million as of June 30, 2004.

In response to this finding, ETA indicated that significant efforts were made in July 2004 (subsequent to our audit analysis) to obtain missing cost reports. Management provided an analysis dated August 11, 2004, that reflected reduced advance balances, approximately $100 million, which were related to grants where no costs were recorded since the inception of the grants. (While we were not provided with details of ETA's analysis, we ran an independent analysis using the July DGR and identified that the advance balance related to grants with zero costs had dropped to $160 million by the end of July.) ETA's response did not address the $349 million of advances related to those grants that had some prior year cost but no cost reporting in the current fiscal year.

We concur with management's efforts to obtain missing cost reports and to track progress using the delinquent cost report. This recommendation remains **resolved and open.** Closure is dependent on evidence that management has consistently monitored and tracked grantee reporting throughout FY 2005, and that monitoring efforts resulted in grantee reporting that has substantially been brought up to date and remains timely in the current fiscal year.

Management's Response

"Management believes that significant progress was made in correcting these items during year-end work. At Oct. 7, 2004, there were 240 documents totaling $60 million where grantees have not reported any costs since inception. In addition, management has included in the DOLAR$-EIMS interface several cost reporting exception reports which will highlight grantees with delinquent cost reports by quarter, alerting OFAS and program management to the situation early and thus focusing efforts to correct this situation."

Auditors' Conclusion

This recommendation remains **resolved and open.** Closure is dependent on the items previously identified in this finding, that is, evidence that management has consistently monitored and tracked grantee reporting throughout FY 2005, and that monitoring efforts resulted in grantee reporting that has substantially been brought up-to-date and remains timely in the current fiscal year.

Accounting for Workforce Investment Act Transfers

In the FY 1999 audit (OIG Report No. 12-00-003-13-001), the OIG reported that ETA did not account for funds transferred within the Job Training Partnership Act (JTPA) program, even though funds were moved between grants and appropriation accounts. While the JTPA program has since been closed, a similar situation currently exists with the WIA program. Under WIA, grantees are allowed to transfer funds between the adult and dislocated worker programs. These transfers are captured in EIMS but are not recorded in DOLAR$. Rather, the funds are recorded in the general ledger and reported to Treasury as if they were expended for the original program component.

The FY 1999 report included the following recommendation:

We recommend that the Chief Financial Officer and the Assistant Secretary of Employment and Training ensure that controls are implemented over JTPA transfers or similar provisions of successor programs (such as the Workforce Investment Act), including:

- ***procedures to account for JTPA (WIA) transfers, which ensure that transfers between appropriation accounts are accounted for in accordance with OMB guidance and that all program costs are accurately recorded for each program.***

In FY 2003, ETA referred the matter to OMB for resolution, and we independently submitted all supporting documentation to OMB at their request. To date, OMB has not provided a response. This recommendation remains **unresolved** pending receipt and analysis of OMB's opinion regarding this issue, and on implementation of appropriate corrective actions as determined to be necessary based on that analysis.

Management's Response

"Management has no further comment."

Auditors' Conclusion

Our audit conclusion remains unchanged.

3. Unemployment Trust Fund

<u>Status of Prior Year Finding and Recommendation</u>

Unemployment Insurance Benefit Overpayments

In the FY 2001 audit (OIG Report No. 22-02-004-13-001), the OIG reported certain deficiencies in the internal controls over Unemployment Insurance benefit payments. The Unemployment Insurance (UI) overpayment data collected by the Benefit Accuracy Measurement (BAM) unit reflected little improvement in the UI overpayment rates over the past several years. The overpayment rate has remained relatively flat since 1989 at about 8.5 percent. The report also noted that the BAM data reflect significantly higher overpayments than those established and reported by the states' Benefit Payment Control (BPC) system, $2.3 billion versus $669 million, respectively. According to management, a significant portion of the $2.3 billion in overpayments represents instances which are either nonrecoverable or are not detectable given current operating procedures. The OIG made four recommendations, of which three were closed. The open recommendation follows:

- ***We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that the Office of Workforce Security (OWS) management develop a written plan to utilize the data produced by the BAM unit as the impetus for improving internal controls over the benefit payment process. Specifically, the plan should address:***

  - ***Procedures to analyze overpayment rates for purposes of identifying statistically valid improvement, or lack thereof, in overpayment rates at the national and state levels.***

In response to this finding, management provided the OIG with a detailed corrective action plan that described planned changes to the methods in which BAM and BPC UI overpayments would be measured and compared, as well as proposed Government Performance and Results Act (GPRA) measures and goals. In FY 2003, management prepared detailed analyses of 2002 UI overpayment data and provided additional information as to the GPRA goal implemented to measure the states' detection of UI benefit overpayments. FY 2004 improvements include increased use by the states of the State Directory of New Hires and passage of a new law, which allows state UI agencies access to the National Directory of New Hires (P.L. 108-295).

Despite management's efforts, the actual UI benefit overpayment rate continues to climb. The UI benefit overpayment rates for calendar years (CY) 2003, 2002 and 2001 were 9.3 percent, 9.1 percent, and 8.2 percent, respectively. In addition, the Operational Overpayment rate measured for the GPRA goal remained stable at 5.0 percent for CY 2003 and 2002.

For these reasons, this recommendation remains **resolved and open** pending evidence that the corrective actions taken by management have lowered the rate of benefit overpayments. We concur that the recent actions taken by management should have a positive impact on the rate of overpayments, and will reevaluate this recommendation in our FY 2005 audit.

Management's Response

"The Employment and Training Administration (ETA) has seen significant results from its efforts to promote states' to use state directories of new hires to detect and prevent the largest cause of overpayments, those due to claimants who continue to claim benefits despite having returned to work. States received $4.7 million in FY 2003 to implement and/or enhance the use of their new hires directories. ETA estimates that savings from use of this tool—largely, prevention of subsequent overpayments—increased from approximately $55 million in CY 2002 to $74 million in CY 2003. In addition, the GPRA overpayment measure rose significantly from 57% in FY 2003 to 60.7% for the 12 months ending June 30, 2004, indicating that a larger portion of potentially recoverable overpayments is being established for recovery. We expect continued positive results as states increase the use of the tools provided. ETA looks forward to the OIG's review of progress made so that the finding may be closed."

Auditors' Conclusion

This recommendation remains **resolved and open** pending evidence that the corrective actions taken by management have lowered the rate of benefit overpayments. We will reevaluate this recommendation pending an analysis of more recent data relative to UI benefit overpayment rates that will be conducted in our FY 2005 audit.

4. Federal Employees' Compensation Act (FECA)

Current Year Findings and Recommendations

Errors in Medical Bill Processing

The Employment Standards Administration's (ESA) Office of Workers' Compensation Programs (OWCP) has contracted with a third party, Affiliated Computer Services Inc. (ACS) to perform medical bill processing for FECA claimants. ACS began processing medical bills in September 2003.

In our FY 2004 audit, our initial testing consisted of a statistical sample of 203 medical bills paid by the contractor during the period October 1, 2003, to March 31, 2004. Of these 203 bills, we found 22 bills (10.8 percent) were not paid the correct amount, including 14 overpayments totaling $63,337 and 8 underpayments totaling $31,380. The types of errors we found are summarized as follows:

Keying/scanning error	1
CCR[1] fee schedule used instead of DRG[2] formula	6
Line items denied improperly	4
Documentation not provided	2
Duplicate payments	2
Other fee schedule calculations	7
Total	22

Two of the sample items were duplicate payments and represent $20,846 of the $63,337 of overpayment errors found in the statistical sample. Three of the sample items were not duplicate payments, but we found duplicate payments related to those items totaling $182,064 in additional overpayment errors. One bill was paid four times between March and June 2004 representing $127,956 of the total $182,064 errors found. As a result, total overpayments identified in both our original sample and the additional duplicates found totaled $245,401 ($63,337 + $182,064). Based on the error rates in these initial results, we selected an additional sample of 155 items for the same sampling period. Of these 155 items, we found 8 errors that resulted in a net overpayment of $826, plus two additional duplicate payments totaling $33,072, which is consistent with the test results from our initial statistical sample. The error rate from the initial sample and the additional sample is 8.4 percent (30 total errors in 358 cases).

Both prior to and in response to these results management took steps to correct some of the weaknesses identified. To test the effectiveness of these corrective actions, we then increased our sample to cover April 1, 2004, to June 30, 2004, and tested an additional 47 items from this period. We found only one $71 error relating to a fee schedule calculation which indicates the corrective actions taken by management resulted in a reduction in payment errors in the third quarter of the fiscal year.

[1] Cost to Charge Ratio tables (used to calculate reimbursement based on the state where services were provided)
[2] Diagnostic-related group (method of calculating reimbursement based on individual hospital specific cost index)

Because OWCP did not have a quality assurance and internal audit plan in place prior to implementation of the new system, OWCP encountered a number of problems at start up of the Medical Bill Processing system, including miscommunication with ACS on how to handle certain types of bills, difficulty in distinguishing between regular outpatient bills and bills from Ambulatory Surgical Centers, bill keying and scanning errors, and an incorrectly set duplicate pay edit.

The Joint Financial Management Improvement Program (JFMIP) Benefit System Requirements state that benefit systems must incorporate appropriate controls to ensure the accuracy of data entry, completeness, and consistency of transaction processing and reporting. In addition, OMB Circular A-127 states that internal controls over data entry, transaction processing and reporting shall be applied consistently throughout the system to ensure the validity of information and protection of Federal government resources.

Without adequate controls over the processing of medical bill payments, OWCP cannot ensure that amounts paid are correctly calculated in accordance with the fee schedules. As a result, medical bill providers have been overpaid and underpaid, resulting in the medical benefit expense being misstated. These misstatements have a direct effect on the benefit expense chargebacks to other Federal agencies and also effect to a lesser degree the actuarial liability calculation. Finally, these misstatements result in incorrect amounts being recorded in the DOLAR$ general ledger.

Management has indicated it has taken the following steps to address these conditions:

- increased the automation of the fee schedule process for Ambulatory Surgical Center (ASC) bills. The program will also implement an automated fee calculation for ASC bills in the first quarter of FY 2005;
- changed the settings to suspend or deny inpatient bills with no Medicare number. This change was implemented in late March 2004;
- improved the training provided to OWCP contractor’s staff, made modifications to the bill input screens, and increased quality assurance reviews of scanned documents early in 2004;
- set the duplicate payment edit to suspend potential duplicate payments in March; then in May changed the edit to deny instead of suspend potential duplicate payments;
- initiated collection actions on all overpayments identified in the audit and planned additional training for ACS staff. An internal audit plan is being developed with a planned implementation in October, 2004; and
- eliminated duplicate provider identification numbers and edits have been changed to prevent payments on old terminated provider identification numbers.

Recommendations

1. **We recommend that the Chief Financial Officer ensure that the Assistant Secretary for Employment Standards fully implements corrective actions that have been proposed or initiated by OWCP, and that the accounting records are adjusted to reflect identified misstatements.**

2. **We recommend that the Chief Financial Officer and the Assistant Secretary for Employment Standards ensure that OWCP establishes a policy to develop a quality assurance plan prior to migration to any significant system or system change.**

Management's Response

"1. As noted in our prior response, corrective actions have been completed or initiated. Full implementation is expected in FY 05. As collections are made on the overpayments, they are credited to the appropriate agency. To date, roughly 50% of the dollar amount of overpayments identified in the audit has been collected and credited to the appropriate account. OWCP will follow Federal debt collection procedures for amounts not recovered.

2. OWCP will issue a policy regarding quality assurance plans for IT [Information Technology] system migrations and changes by March 31, 2005."

Auditors' Conclusion

The first recommendation is **resolved and open,** pending effective implementation of these corrective actions and a positive outcome from our review of the medical bill system in the FY 2005 audit. In November 2004, OWCP issued a quality assurance policy regarding IT system changes and migration. Based upon our review of this policy, the second recommendation is **closed**.

Medical Bill Receivables

We noted during our FY 2004 audit that OWCP and ACS have not implemented a system to track and record medical bill overpayments (receivables). In addition to the $278,473 of medical bill overpayments previously discussed in this report ($245,401 and $33,072), OWCP and ACS have identified overpayments during the course of the fiscal year, and ACS has set up an ad-hoc method of tracking and collecting these overpayments.

JFMIP Benefit System Requirements, issued in September 2001, lists Recovery Receivable Management as one of the nine major functions of a Federal benefit system. The Recovery Receivable Management requirements include mandatory requirements relating to the establishment, servicing, collection, offset, and funds control related to receivables. In addition, Federal accounting standards require that agencies recognize a receivable when a Federal entity establishes a claim to cash or other assets against other entities.

Management has indicated the design of the new medical bill processing system included the development of a mechanism for establishing receivables in order to track and recoup benefits overpayments. The nightly electronic feed to record the overpayment information was developed as a feature of the medical bill system; however, a delay in the implementation of the new case management system resulted in a delay in the implementation of this feature. Testing of this feature is currently underway and implementation is expected in the first quarter of FY 2005. In the interim, system errors similar to the problems identified with inpatient bill duplicates will be tracked separately by OWCP and ACS.

Without an adequate receivable recovery system, collection of receivables cannot be effectively managed and monitored, which could result in the failure to collect recoverable amounts. The medical bill payment system is not in compliance with one of the mandatory functions of JFMIP Benefit Systems requirements. In addition, these receivables are not being captured in the Department's general ledger, resulting in an understatement of accounts receivable.

Recommendation

We recommend that the Chief Financial Officer ensure that the Assistant Secretary for Employment Standards develops and implements the receivable system for the identification, tracking, and reporting of medical benefit overpayments in accordance with JFMIP requirements and ensure that the accounting records are adjusted to reflect all current receivables.

Management's Response

"The new case management system in iFECS includes the receivable system which was developed in accordance with JFMIP requirements. The new system will be deployed in FY 2005 and current receivables will be reflected."

Auditors' Conclusion

This finding is **resolved and open,** pending effective implementation of this new system and a positive outcome from our review of this system in the FY 2005 audit.

<u>Status of Prior Year Finding and Recommendation</u>

Lack of Current Medical Evidence

In the FY 2003 audit report (OIG Report No. 22-04-002-13-001), we reported that ESA's Office of Workers' Compensation Programs (OWCP) did not have effective controls to ensure Claims Examiners (CEs) request and receive current medical evidence timely, in support of FECA medical benefit payments. The process relied upon the ad-hoc tracking systems utilized by individual CEs in each of the District offices to ensure compliance. The lack of current medical evidence appeared to be due to procedural failure by OWCP rather than claimant nonresponsiveness.

Because OWCP staff did not follow its procedures, they could not take steps to suspend or terminate benefits if the medical evidence did not support continuing eligibility. Without adequate procedures for obtaining and reviewing current medical evidence, the risk of improper payments increases.

In the FY 2003 audit report, we made the following recommendation:

- ***The Chief Financial Officer ensure that the Assistant Secretary for Employment Standards develops and implements effective controls (e.g. automated procedures) that will ensure Claims Examiners obtain and review current medical evidence as required by FECA program policy.***

In our FY 2004 audit testing, of the 159 cases in our statistical sample that required current medical evidence, we found 18 cases (11 percent) where the CE did not send out a request for medical evidence or did not follow up with a second request if a response was not received. In addition, in a nonstatistical sample of 50 cases where compensation was paid but there were no medical bills paid in the past 2 years, we found 10 of these cases also did not have current medical evidence (20 percent). These errors are consistent with the results of our FY 2003 testing.

In response to our FY 2003 report, Management submitted a corrective action plan with timeframes for completion. The corrective action plan includes the implementation of a new automated system, which includes a periodic entitlement review (PER) application that indicates the absence of current medical evidence in the file. This will then update the CE task and reminder lists through the Workload Organization Window (WOW) application. Supervisors will be able to sort the reminding lists to identify overdue tasks. This system is scheduled to be tested and implemented in December 2004.

This finding is **resolved and open**, pending the effective implementation of this automated system and our review in the FY 2005 audit.

Management's Response

"Management agrees with this position."

Auditor's Conclusion

This finding remains **resolved and open**, pending the effective implementation of the automated system and a positive outcome from our review of this system in the FY 2005 audit.

5. Procurement

<u>Current Year Finding and Recommendation</u>

OASAM's Procurement of Services and Supplies Lacks Documentation

OASAM's Procurement office processed approximately $296 million of the $622 million (48 percent) of new FY 2004 procurements for supplies and services. We judgmentally selected 10 procurement files for review that had activity during the fiscal year, and found that four of the files lacked sufficient documentation and were poorly organized. As a result, management was not able to demonstrate compliance with the sections of the Federal Acquisition Regulation (FAR) pertaining to contract competition for three contracts. Also, management could not demonstrate compliance with Federal Appropriations Law for one contract.

Four of the 10 files did not contain supporting documentation evidencing how key procurement decisions were made or how the contract was competed, as required by FAR 8.404 (b) (2), FAR 8.405-6 (if contract was made after July 19, 2004) and OMB Circulars No. A-123 and A-130, that provides government wide standards for proper record and documentation maintenance. OMB Circular No. A-123 concerning "Recording and Documentation" states, "The documentation for transactions, management controls, and other significant events must be clear and readily available for examination."

- For the first procurement with a cumulative value of $10.3 million, the agency could not document the original scope or that modifications from July 1999 though February 2004 did not exceed the original scope. The initial award contained language indicating Y2K services valued at $193,029 were to be performed. However, OASAM modified the contract 33 times, and added over $10 million to the contract. The last contract modification was for $783,134, extending the period of performance through July 2004. Beginning with the second modification, the contract was amended to include Continuation of Government and

Continuation of Government Operations services. In addition, the file did not contain documentation that at least three schedule contractors were considered. FAR 8.404 (b) (2) states:

> "(b) Ordering procedures for optional use schedules
> (2) Orders exceeding the micro-purchase threshold but not exceeding the maximum order threshold. Place orders with the schedule contractor that can provide the supply or service that represents the best value. Before placing an order, consider reasonably available information about the supply or service offered under MAS contracts by using the GSA Advantage! on-line shopping service, or by reviewing the catalogs or pricelists of at least three schedule contractors."

- In the second procurement, we found a Blanket Purchase Agreement (BPA) with multiple holders where the procurement file did not have evidence the purchase was competed. FAR 8.405-3(b)2 states:

> "Multiple BPAs. If ordering activity establishes multiple BPAs, before placing an order exceeding micro-purchase threshold, the ordering shall "Forward the requirements, or statement of work and the evaluation criteria, to an appropriate additional number of BPA holders . . . and place the order with the BPA holder that represents the best value"

This contract was originally awarded to assist the Department of Labor and OCFO in verification and processing of employee tax documents, financial statements and The Improper Payments Information Act of 2002. The scope was later expanded to assist management with internal audit services and system operation maintenance. The rationale for expanding the scope of the work without providing other BPA holders the opportunity to bid on the work was not in the file.

- In the third procurement, the contract file did not have any preaward documents or a task order with the contracting officer's signature approving the procurement.

- In the fourth procurement, the file did not include the rationale for using FY 2004 appropriations for FY 2005 services. The contractor was awarded a task order modification effective August 31, 2004 for engineering services. However, the new services would not be performed until the following fiscal year. When considering against which year's appropriation an obligation should be made, a distinction between severable and non-severable services must be made. One of the fundamental principles of appropriations law is the *bona fide* needs rule. A fiscal year's appropriation may only be obligated to meet legitimate needs in the fiscal year for which the appropriation is made. According to *Principles of Federal Appropriations Law*, a severable contract for services, "where the services are continuing and recurring in nature, the contract is severable and the services must be charged to the fiscal year(s) in which they are rendered."

  The task order was awarded for new services that were continuing and recurring in nature, and should have been considered severable. Performance of these services did not begin in FY 2004 and DOL will not realize a benefit until such time as the services are provided (October 1, 2004 through December 31, 2004). The file did not include a rationale for using FY 2004 appropriations. Therefore, we conclude that this task order modification improperly obligated FY 2004 funding and violated the bona fide needs rule pursuant to 31 U.S.C. 1502 (a).

The reasons for the lack of compliance with procurement policies and procedures were difficult to ascertain due to the change of procurement management and staff within OASAM. However, based on the condition of the files and the lack of critical procurement documentation, it was clear that files were not being maintained in accordance with existing procurement policies and procedures.

OASAM has recently changed procurement personnel and is in the process of adopting and implementing new policies and procedures which they believe will ensure compliance with the FAR and DLMS and will improve record maintenance over this important function. Management provided various documents throughout the course of our audit as evidence that corrective actions have already been initiated, such as training plans, compliance forms, procurement checklists, etc.

Recommendations

We recommend that the Chief Financial Officer and the Assistant Secretary for Administration and Management:

1. **Ensure completion of policies that are currently being implemented to train staff, improve record maintenance, and establish consistent procurement practices designed to promote a better understanding and compliance with FAR and DLMS policies and procedures.**

2. **Ensure development of a monitoring process to ensure compliance with FAR and DLMS requirements.**

3. **Analyze FY 2004 obligations to determine the extent to which funds were obligated in the wrong year and takes necessary action to obligate the correct year.**

Management's Response (OASAM)

Recommendation 1

"In its November 8, 2004 draft finding and recommendation, the OIG noted that OASAM recently changed procurement personnel and is in the process of adopting and implementing new policies and procedures to ensure compliance with the FAR and DLMS, as well as improve record maintenance. The new management team in the OASAM Office of Procurement Services (OPS) was credited with supplying various documents throughout the course of the OIG's audit, providing evidence that corrective actions have already been initiated, such as training plans, compliance forms, procurement checklists, etc.

Continuing on this course, OASAM is addressing the OIG's recommendations as follows:

<u>Training</u>

- Seven knowledgeable and properly trained contract support personnel have been added to OPS to assist in procurement data input, file organization, and procurement specialist support.
- One senior contract specialist has been hired and three additional contract specialists will be recruited by the end of the 2°d Quarter of FY 2005, all possessing skills current with the Acquisition Workforce Improvement Act (AWIA) standards of training and education for the GS-1102 Contract Specialist occupational series.

- Existing OPS staff will complete training in FY 2005 consistent with AWIA standards,

Record Maintenance

- Contract files are being reviewed to remove unnecessary items and to ensure that they contain the required documents in an organized manner, This work is expected to be completed by the 2"d Quarter of FY 2005.
- FY 2005 files are being reviewed to ensure the contract specialists are including the regulatory-required documents. A separate filing system has been set up for FY 2005 awards to segregate them from the older files, until such time as the older files are sorted and properly organized.
- OPS staff has been instructed to fill in the Electronic Procurement System (EPS) required fields correctly so the automated tracking system will be a viable record keeping and management tool.
- The OASAM Assistant Secretary will issue guidance and direction to Agency Heads and contracting officers in the 1st Quarter of FY 2005 about the need to fill in the required EPS fields to initiate procurement actions.

Consistent Procurement Practices

- Standard Operating Procedures (SOPs) for OPS Staff are being prepared and are for completion by the 2°d Quarter of FY 2005.
- SOP's will be supplemented by additional internal OPS checklists, review sheets and EPS, milestones, to be completed by the 3rd Quarter of FY 2005.

Recommendation 2

OASAM OPS management has substantially increased oversight and monitoring of procurement activities. Standard checklists are now in use to check conformance with FAR and DLMS requirements, prior to approving and executing procurement actions.

Recommendation 3

This issue was raised to the attention of the OPS Director during the course of the audit and corrective action was promptly initiated. Working with the client agency, it was determined that contractor performance did begin in FY 2004, thus making the obligation of FY 2004 funds permissible and in accordance with appropriations law. The contract file has been updated accordingly to document the correct performance period for the contract.

A review of other actions handled by OPS staff involved with this error has resulted in one additional procurement action being modified to reflect a correction to the period of performance. The contract file has been updated accordingly.

On an ongoing basis, the correct use of funding is being assessed by the funds certifier, the contracting officer, and the disbursement officer. Through this process, any additional discrepancies will be identified by end of 2"d Quarter of 2005 and appropriate corrective action taken before disbursement of funds.

Based on the forgoing, OASAM considers recommendations 2 resolved and ready to be closed, pending OIG confirmation. Recommendations 1 and 3 are considered resolved and open, with closure dependent upon completing the tasks outlined in our response and confirmation by the OIG."

Management's Response (OCFO)

"We have two additional comments. First, the portion of the finding relating to Blanket Purchase Agreement (BPA) is not consistent with our understanding of the intent of these BPAs. We will work with OASAM in the time specified in their response to address this issue. Second, consistent with other similar recommendations, we believe that the wording of this recommendation should be "We recommend that the Office of the Chief Financial Officer and the Assistant Secretary for Administration and Management…"

Auditors' Conclusion

Based on the corrective actions described by management, these recommendations are considered **resolved and open**. In the FY 2005 audit, we will assess the progress made by management in implementing the planned corrective actions, and will evaluate the effectiveness of such actions with our review of procurement files. Closure is dependent upon a positive outcome from that evaluation.

6. Managerial Cost Accounting

<u>Status of Prior Year Findings and Recommendations</u>

Implementation of Managerial Cost Accounting

In the FY 2002 audit (Report No. 22-03-003-13-001), the Office of Inspector General (OIG) reported that DOL was not in compliance with the requirements for managerial cost accounting (MCA) contained in Statement of Federal Financial Accounting Standards (SFFAS) No. 4. Specifically, DOL had not defined outputs for its operating programs nor developed the capability to routinely report the cost of outputs at the operating program and activity levels. Further, DOL did not adequately link cost information to performance measures at the operating program level for use in managing program operations on a routine basis or use managerial cost information for purposes of performance measurement, planning, budgeting or forecasting.

The FY 2002 report included the following recommendation:

- ***We recommend that the Chief Financial Officer ensure the full implementation of the comprehensive Department-wide plan by January 28, 2006.***

In response to this finding, management developed a comprehensive plan to implement a Department-wide MCA system that complies with the requirements of SFFAS No. 4. As of the end of FY 2004, the implementation project directed by OCFO, with significant cooperation of agency personnel, has led to the successful development of cost models for substantially all of DOL's agencies and their major programs. OCFO recently certified the MCA system for processing and completed installation of the cost accounting software throughout each of the program agencies. In the near future, OCFO indicates that it will complete cost model documentation and provide final training to agency personnel. Management projects that all cost models will be updated with FY 2004 data and be operational during the second quarter of FY 2005. This recommendation is **resolved and open.** Closure is dependent upon full operation and utilization of the MCA systems by the program agencies, as designed and presented to the OIG in response to this finding.

Management's Response

"No further comments."

Auditors' Conclusion

Our audit conclusion remains unchanged.

Management Advisory Comments

1. Job Corps Program

Status of Prior Year Finding and Recommendation

Unclaimed Student Checks Noted at Job Corps Data Center

In the FY 2003 audit report (OIG Report No. 22-04-002-13-001), we reported that each year, a significant number of Job Corps student payroll checks are returned to the Job Corps Data Center (JCDC) unpaid. A total of 109,251 unpaid checks were returned to the JCDC from December 1995 through November 2002. These checks amounted to $8,651,815. During the same period, an additional 30,722 unclaimed checks (in the amount of $2,314,083) were not returned to the JCDC but were never cashed by the students. In total, $10,965,899 is owed to Job Corps students for readjustment and/or transition allowances earned during the course of their participation in Job Corps.

The FY 2003 audit report included the following recommendation:

- ***We recommend that the Chief Financial Officer ensure that the Office of Job Corps identify the causes for checks being returned and address these causes by strengthening current procedures to ensure that students receive their final checks, and that the number of unclaimed checks is reduced.***

In response to the recommendation, Job Corps stated that as of February 2004, the Unclaimed Pay has been reduced to $9.7 million. Job Corps also stated that it took several actions to continue reducing this amount, which included adding an application function allowing career transition service (CTS) providers to: (1) query students currently on their case load for outstanding check information; (2) perform reviews of students with outstanding checks; and (3) conduct follow-up contacts. Additionally, Job Corps stated it was mailing notifications to students with outstanding checks and sending bulk case-notes to CTS providers for follow-up.

During our FY 2004 audit work, Job Corps stated it is continuing to take action to reduce the amount of returned Job Corps student payroll checks. Job Corps informed us that it categorized the checks based on the dollar amount and produced a series of reports that were tailored to the appropriate Job Corps staff for follow-up. Additionally, Job Corps stated that the JCDC is working with the CTS providers to locate the students and take the appropriate steps to reissue a check to those students.

In order to reduce unclaimed checks, Job Corps stated that the JCDC provided an additional reporting mechanism for the CTS providers. These reporting mechanisms assist the CTS providers in fulfilling their contractual obligations of ensuring that students receive their final pay. The CTS providers have the ability to log into the computer system and view the returned checks information for their student base.

Also, Job Corps is working with the OCFO to set up a pilot program on student debit cards. Job Corps stated that this will reduce the problem caused by outdated addresses for students when they leave Job Corps. Job Corps stated it has requested the CFO begin the pilot program by September 30, 2004.

It is Job Corps' position that evidence of the success of corrective actions will be reflected as a decrease in the amount of unclaimed student checks.

This recommendation is **resolved and open**. Although we found that the JCDC's February 2004 Statement of Position supports the reduction of Unclaimed Pay from nearly $11 million to $9.7 million, we will analyze the activity next year to determine if there is a downward trend in unclaimed students check that can be attributed to the action taken by Job Corps.

Management's Response

"ETA looks forward to OIG's review of progress made so that the finding may be closed."

Auditors' Conclusion

This recommendation remains **resolved and open** pending our analysis of FY 2005 activity to determine if there is a downward trend in unclaimed students checks that can be attributed to the actions taken by Job Corps.

2. Accounting for Grants

Status of Prior Year Findings and Recommendations

a. ETA Grant Closeout

In the FY 1996 audit report (OIG Report No. 12-97-005-13-001), the OIG reported that ETA did not have an effective system to track grants and contracts in the closeout process or identify the grants that should be closed. Additionally, the closeout process was very untimely. In FY 2000, the responsibility for closing ETA grants was moved to the Office of Grants and Contracts Management. Since that time the Closeout Unit has improved the grant closeout process and reduced the inventory of grants in closeout. As of the FY 2003 audit report, the recommendation was resolved and open, pending improvements in the length of time for processing grants and contracts through closeout.

The FY 1996 audit report included the following recommendation:

- ***We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that procedures are established to ensure that the regulatory time requirement for submitting all financial, performance, and other required documents within 90 days after the end of the grant is met by the grantee or contractor and that grants are closed out in a timely manner, i.e., 1 year or less.***

In recent years, management has taken many actions to improve the closeout process and to shorten the timeframe for closing grants and contracts. The backlog of grants and contracts pending closeout has been reduced from over 2,300 documents as of September 30, 1999, to around 800 documents as of June 30, 2004.

Nevertheless, the length of time to close a grant is not yet consistent with departmental policy, which requires that grants and contracts be closed within one year of completion.

We performed an analysis of the grants and contracts closed during FY 2004 (as of June 30, 2004), and noted the following:

Grants closed during FY 2004	1,144
Expiration date not listed	(78)
Grants analyzed	1,066
Grants closed within one year after expiration	505
Grants closed later than one year after expiration	561
Percent of grants closed later than one year	52.6%
Average length of time to close	656 days

This recommendation remains **resolved and open**. Closure is dependent upon evidence that grants and contracts are closed within the required timeframes, as determined in our FY 2005 audit.

Management's Response

"ETA concurs with the fact that we are not closing the majority of our grants, agreements, or contracts within 180 days or within one year of their expiration date. Employment and Training Order (ETO) No. 1-91 establishes the 180-day deadline for grants and cooperative agreements to State and local governments. This order does not apply to contracts or nongovernmental grants. Therefore, the 95 contracts should only be measured against the timeframes listed in the Federal Acquisition Regulation (FAR) at Section 4.804-1, or the Department of Labor Manual Series (DLMS) 800 Chapter 877 (36 months for contracts). These regulations are predicated on the requirement for a final audit of the company's indirect cost rates. Since the time that the Single Audit Act was implemented, a cognizant auditor may not review a company for three years or more (and may take longer to negotiate a final rate agreement). The 475 nongovernmental grants listed in your report should only be measured against the timeframes in the Department of Labor Manual Series (DLMS) 800 Chapter 877 (1 year for nongovernmental grants), which are subject to the same delays as the contracts.

The closeout unit is in the process of revising ETO No. 1-91 and establishing closeout timeframes in-line with the FAR and the DLMS. The revised order should be completed in Fiscal Year 2005 and will list the following timeframes for closing grants, agreements and contracts:

a. Firm fixed-price contracts -- 6 calendar months from the expiration or termination (except for contracts for automatic data processing (ADP));

b. All other contracts -- 36 calendar months from the expiration or termination or within 30 days after receiving final indirect cost rates;

c. Grants and agreements -- 12 calendar months from the expiration or termination to closeout grants.

ETA is taking other corrective action measures to correct the untimely closeout of grants/agreements/ contracts. This corrective action plan was provided to the auditors in the FY 2004 Statement of Facts for this recommendation."

Auditors' Conclusion

Our draft report identified the large percentage of grants and contracts closed in FY 2004 that did not comply with DLMS guidelines requiring closure within one year after the grant expiration date. We did not report exceptions based on a 180-day criteria. However, we agree with management that certain grants with state and local governments are subject to regulations that require grantees to submit final cost reports within 90 days after grant expiration, and granting agencies to make final upward or downward adjustments within 90 days after the final report is received. We encourage management to ensure that any directive issued in FY 2005 is not only in line with the DLMS and FAR, but also is compliant with the 180-day criteria and all other applicable closeout regulations. This recommendation remains **resolved and open**. We will evaluate the impact of management's closeout directive and the timeliness of grant closeout in our FY 2005 audit. Closure is dependent upon a positive outcome from that evaluation.

b. Tracking Grant Closeout

In the FY 2001 audit report (OIG Report No. 22-01-006-13-001), the OIG reported that DOL's granting agencies need a means by which they can track, in DOLAR$, whether or not a grant has been closed. Currently, it is difficult for granting agencies to identify grants and contracts that have not yet been submitted for closure. In addition, there are no controls to prevent transactions from being posted in DOLAR$ after the grant has been closed and received final certification, and grants can be archived from DOLAR$ without consideration of whether or not the grant has been closed. There are thousands of grant and contract documents recorded in DOLAR$, and the granting agencies need an efficient means of identifying open versus closed grants.

The FY 2001 report included the following recommendation:

- ***We recommend that the Chief Financial Officer work with the granting agencies to develop a method, using DOLAR$, that will provide the agencies with the necessary information for closed versus open grants, would restrict access to closed grants, and would ensure that grants are not archived from DOLAR$ prior to grant closure***.

No actions have been taken by management regarding this recommendation; however, the OCFO has indicated that this recommendation will be considered in the functional requirements analysis for the new accounting system that will eventually replace DOLAR$. We were informed that the new accounting system is scheduled for implementation in FY 2006.

We will evaluate relevant portions of the functional analysis referred to by management, at the time it becomes available. However, this recommendation remains **unresolved** pending implementation of procedures for interim resolution.

Management's Response

"We are currently working on the implementation of the ORACLE accounting system. The OCFO will be addressing the OIG recommendation with the implementation team and will provide the OIG an update by March 31, 2005."

Auditors' Conclusion

This recommendation remains **unresolved** pending appropriate plans for corrective action.

3. Unemployment Trust Fund

Status of Prior Year Finding and Recommendation

Unemployment Compensation Advisory Council

In the FY 1997 audit (OIG Report No. 12-98-002-13-001), the OIG reported that the Unemployment Compensation Advisory Council (UCAC) required by the Social Security Act has not been reestablished. Section 908 of the Social Security Act makes no provision for delaying the establishment of a new advisory council, and the issues for which the UCAC is responsible are significant to the UI program. The report included the following recommendation:

- ***We recommend that the Assistant Secretary for Employment and Training ensure that the Unemployment Compensation Advisory Council is reestablished as required by Section 908 of the Social Security Act.***

In FY 2003, management indicated that a legislative proposal developed by the Department and approved by OMB in 2003 to reform the Unemployment Insurance (UI) program included a section that would amend the current law requirement that an Advisory Council on Unemployment Compensation be convened every 4 years. The legislative proposal would authorize the Secretary of Labor to convene a council periodically. ETA anticipated pursuing this change to the advisory council statute in connection with comprehensive UI reform legislation. In FY 2004, management indicated that the legislative proposal has not yet been finalized and that the amendments would provide for an advisory council "at the discretion of the Secretary." ETA disagrees with this recommendation and is pursuing an appeal to the Deputy Secretary to resolve this finding.

This recommendation is **unresolved** until such time that ETA complies with the requirement to establish a UCAC. We concur that the issue should be raised to the Deputy Secretary.

Management's Response

"ETA disagrees with the OIG's recommendation and will go forward with an appeal to the Deputy Secretary to resolve this finding."

Auditors' Conclusion

Our audit conclusion remains unchanged.

4. Black Lung Disability Trust Fund

Status of Prior Year Finding and Recommendation

Inaccurate Responsible Mine Operator Accounts Receivable Balances

In the FY 1999 Management Advisory Comments (OIG Report No. 12-00-006-16-001), the OIG included recommendations concerning Responsible Mine Operator (RMO) accounts receivable balances sent to the Solicitor's Office. These accounts often remain at the Solicitor's Office for extended periods of time but are not updated as appropriate while there.

The following recommendation was made to the Division of Coal Mine Workers' Compensation (DCMWC):

- ***DCMWC should update each account receivable no less frequently than once a year for disability benefits and medical bills paid since the account was last updated.***

During our audit testing for FY 2003, we noted that only 8 of 15 accounts had correct balances. The remaining seven accounts were not updated with benefits and or medical bills paid, or were updated with unsupported balances. In July 2004, we were informed by management that the updates would remain an annual process, and that the update for FY 2004 would not take place until the last quarter. However, the updated RMO accounts receivable balances were not available at the time our year-end audit procedures were performed. This recommendation remains **resolved and open**. The accuracy of the RMO accounts receivable balances will be reviewed at the time the data becomes available for audit.

We note that at the time this recommendation was made, financial statements were prepared only on an annual basis. Since that time, the Department has implemented quarterly reporting. Therefore, we conclude that management should update accounts receivable balances on a quarterly basis to coincide with the Department's financial reporting requirements. Closure is dependent on evidence that indicates the accounts receivable balances are updated quarterly and are accurate.

Management's Response

"DCMWC staff will update account receivable records for responsible operators in enforcement each quarter as recommended. During FY 2005 the Division expects to implement system enhancements that will make the updates whenever payments are made on these accounts."

Auditors' Conclusion

This recommendation remains **resolved and open**. The RMO accounts receivable balances will be reviewed in our FY 2005 audit. Closure is dependent upon a positive outcome from that review.

5. Federal Employees' Compensation Act (FECA)

<u>Status of Prior Year Findings and Recommendations</u>

a. Lack of Social Security Wage Authorizations

In the FY 2003 audit report (OIG Report No. 22-04-002-13-001), we reported that controls were not effective in ensuring that Form SSA-581, *Authorization to Obtain Earnings Data From the Social Security Administration*, was sent to the claimant and proper follow-up performed on unreturned forms. We noted that the Office of Workers' Compensation Programs does not have automated procedures to ensure the timely request and receipt of this required claimant information. Therefore, the system relies upon the ad-hoc tracking systems utilized by the individual Claims Examiners (CEs) in each of the District offices.

The FY 2003 audit report included the following recommendation:

- ***We recommend that the Chief Financial Officer and the Assistant Secretary for Employment Standards develop an adequate system to ensure that Claims Examiners obtain and review SSA-581 forms as required by FECA program policy.***

FY 2004 audit testing of a statistical sample of 118 cases that required a Form SSA- 581 identified 8 cases (7 percent) where the CE did not send a second request to obtain social security wage data if a response to the first request was not received. While this is an improvement from our prior year test results, this error rate indicates that this control is still only moderately effective.

In response to our FY 2003 audit report, Management submitted a corrective action plan with timeframes for completion. The corrective action plan includes the implementation of a new automated system, which includes a periodic entitlement review (PER) application that indicates the absence of the SSA-581 forms in the file. This will then update the CE task and reminder lists through the Workload Organization Window (WOW) application. Supervisors will be able to sort the reminding lists to identify overdue tasks.

This system is scheduled to be tested and implemented in December 2004. Therefore, this finding is **resolved and open**, pending the effective implementation of this automated system and our review in the FY 2005 audit.

Management's Response

"Management agrees with this position."

Auditors' Conclusion

This finding remains **resolved and open**, pending effective implementation of this automated system and a positive outcome from our review of this system in the FY 2005 audit.

b. Medical Bill Sampling

In the FY 2003 audit report (OIG Report No. 22-04-002-13-001), we reported that in the Philadelphia, Jacksonville, and San Francisco District offices, monthly medical bill sampling was not performed as required by OWCP procedures. In September 2003, OWCP began implementation of a new contractor-provided medical bill processing system. This centralized bill processing shifted the primary responsibility for monitoring the medical bill payments from the District offices to the National office.

An independent review of medical bills is an important internal control to ensure the accuracy, quality, and security of the bill processing operation. If the medical bill reviews are not performed, it increases the risk that management will fail to identify and correct errors and deficiencies in the medical bill processing on a timely basis. The risk that improper payments may be made is also increased.

In the FY 2003 audit report, we recommended that:

- ***The Chief Financial Officer and the Assistant Secretary for Employment Standards ensure that medical bills are reviewed on a timely basis at all District offices in***

accordance with FECA Bulletin No. 98-05 and that existing guidance is updated to reflect implementation of the Improper Payments Act in FY 2004.

Our testing of medical bills in the FY 2004 audit revealed the National office did not implement a formal review process for sampling the medical bills being processed by the contractor. Management provided a corrective action plan that includes draft procedures for an audit plan to be developed by September 2004 and implementation of the audit plan by October 2004.

This finding is **resolved and open**, pending the effective implementation of the audit plan and our review in the FY 2005 audit.

Management's Response

"Management agrees with this position. Draft procedures for an audit plan were developed in September 2004."

Auditors' Conclusion

This finding remains **resolved and open**, pending the effective implementation of the audit plan and a positive outcome of our review in the FY 2005 audit.

6. Performance Measures

Status of Prior Year Findings and Recommendations

Unemployment Trust Fund

The following recommendations were issued in an FY 1992 OIG audit report (OIG Report No. 03-93-034-03-315) directly to the appropriate Assistant Secretary. We request that the CFO work with the Assistant Secretary to address these recommendations.

- ***Unemployment Insurance Service (UIS) should review validation methods for all other data elements contained on the Unemployment Insurance Required Reports.***

UIS began the Unemployment Insurance Data Validation (UIDV) implementation process in FY 2003. As of mid-April 2004, states had submitted validation reports covering about 40 percent of the benefits report elements covered by the validation system, and 36 percent of the tax elements. Full implementation of the UIDV program is pending the receipt of actual validation reports from all states. The UIS expects all states to have completed validations by September 30, 2004. Therefore, this recommendation remains **resolved and open**. We will perform audit follow-up work after the UIDV program is fully implemented to evaluate whether this recommendation can be closed.

Management's Response

"As of October 1, 2004, 42 states have implemented all or part of UI data validation. States that did not complete implementation or that "failed" some part of validation are required to submit corrective action plans."

Auditors' Conclusion

This recommendation remains **resolved and open.** Once validation reports have been received from all states, we will perform audit follow-up work to determine whether this recommendation can be closed.

- ***UIS should increase the period being validated from one month for quantity and one quarter for quality to an entire year.***

The Office of Workforce Security (OWS) disclosed that once UIDV is fully implemented, a determination would be made as to whether there are substantial benefits to conduct the validation on a full year's data. The UIS expects all states to have completed validations by September 30, 2004. These states are validating one quarter of data for quality, and one month of data for quantity. Therefore, until OWS develops a corrective action plan to address increasing the validation period beyond one quarter for quality and one month for quantity, this recommendation is **unresolved**.

Management's Response

"As previously explained, the UI validation program uses two tests: quantity and item (or quality) validation. Although the cost of performing additional months or quarters of quantity validations is expected to be low once all programming is done, this is not the case with quality (item) validation, which involves drawing and investigating samples and is quite labor intensive. Unless there is evidence from UI data validation sample reviews that the underlying transactions contain substantial incidence of errors due to exercise of human discretionary judgment—the only source of continuing errors not subject to a one-time fix—validating a small segment of transactions is the reasonable and cost-effective approach. We also note that a year's worth of quantity validation could be a major expense for some large states, such as California, where even a month's or quarter's worth of transactions involves the handling of massive extract files.

ETA believes that the costs of extending the validation period will be large and that the reduction in potential for material misstatement of UI performance data will be small. The OIG has provided no evidence to support its stance that validating a one-year period is superior to the existing validation periods; nonetheless, once UI data validation is fully implemented, ETA will conduct a four-quarter review in several states to test the cost-effectiveness of an extended validation period."

Auditors' Conclusion

Our recommendation for the development of a corrective action plan to address increasing the validation period beyond one quarter for quality and one month for quantity remains **unresolved,** pending the outcome of ETA's four-quarter review to test the cost-effectiveness of an extended validation period.

7. Longshore and Harbor Workers' Compensation Act Special Fund

Status of Prior Year Findings and Recommendations

Lack of Written Policies and Procedures for the Longshore and Harbor Workers' Compensation Act (LHWCA) Special Fund

In a memorandum dated April 13, 2004, the OIG issued a management advisory comment related to the Division of Longshore and Harbor Workers' Compensation (DLHWC), which administers the LHWCA special fund. The OIG found that the oversight, evaluation, monitoring, and control of DLHWC were informal and based primarily on institutional knowledge by experienced staff. During the FY 2003 audit of LHWCA special fund, weaknesses were identified regarding the lack of readily available, up-to-date procedure manuals at the National office level. Specifically, there were no written procedures to direct staff on how to accurately adjust or write off transactions for receivables relating to monies owed for assessments and for overpayments to claimants, and there no written policies on the Fund Balance with Treasury reconciliation process relating to the SF 224 and the FMS 6652 report.

The weaknesses noted create a high risk for discontinuity of major program operations should the office experience substantial staff turnover. As of FY 2003, approximately 60 percent of the staff was eligible to retire. These weaknesses also increase the possibility of improper or inconsistent accounting for transactions under various general ledger accounts**.**

The OIG made the following recommendation:

- ***We recommend that the Director of the Division of Longshore and Harbor Workers' Compensation ensures that written operating manuals are prepared at the National Office level to document key operating areas, including: write off of transactions and adjustments for receivables, and the Fund Balance with Treasury reconciliation process relating to the SF 224 and the FMS 6652 report.***

Management has agreed with our recommendation and the preparation of the written operating procedures is pending. However, no timeline for completion was provided. This finding is **unresolved** pending receipt of a corrective action plan for the timely completion of the written procedures, including proposed dates.

Management's Response

"ESA is in the process of developing written operating procedures. We expect to complete the process by April 30, 2005."

Auditors' Conclusion

Based on management's response, this finding is **resolved and open** pending our receipt and review of the written procedures.

8. Accountable Property

Status of Prior Year Findings and Recommendations

In the FY 2001 Findings and Recommendations to the Chief Financial Officer (OIG Report No. 22-02-004-13-001), the OIG reported that the Department does not have adequate accountable property systems in place. Federal law (31 U.S.C. 3512 (c) (B) requires the Department to maintain effective control over, and accountability for, assets for which the agency is responsible, and to safeguard these assets against waste, loss, unauthorized use and misappropriation.

These assets include both assets capitalized for financial statement purposes and other "accountable property." The OIG noted that several agencies did not have adequate written procedures and systems developed for identifying and tracking accountable property, and made the following recommendations:

- ***We recommend that the Chief Financial Officer ensure that the Assistant Secretary for Administration and Management establish written Department-wide procedures, including the Joint Financial Management Improvement Program's (JFMIP) property management system requirements, for identifying and tracking all accountable property.***

- ***We recommend that the Chief Financial Officer ensure that the Assistant Secretaries for Administration and Management and Employment Standards identify and track accountable property to be incorporated into a property management system.***

As of FY 2004, two agencies within the Department have not completed implementing inventory systems to track accountable property. The status of these two agencies follows:

Office of the Assistant Secretary for Administration and Management (OASAM)

In response to our request of an update on the status of prior year audit recommendations, OASAM stated it has been moving forward on implementing the new "E-Property" system. A property management software package was acquired, and OASAM has been working closely with the DOL agencies on developing physical inventories of agency personal property. The DOL "E-Property" Workgroup meets regularly to coordinate and communicate the project DOL-wide. Full implementation on the core DOL "E-Property system is currently on schedule. The rollout is planned for November 22, 2004. In conjunction with implementation of Oracle Assets, OASAM will issue a revised DLMS, Chapter 100, Property Management Policy and Procedures on December 22, 2004.

Based on these actions both recommendations are **resolved and open** pending effective implementation of the new system and corresponding tracking procedures.

Management's Response

"The attached updated DLMS 2 Chapter 100, Property Management, has been extensively revised and is in the final stage of clearance, with only one issue to be resolved. The revised DLMS chapter establishes the policy and assigns responsibilities for DOL management of accountable property in accordance with Federal law and JFMIP guidelines. OASAM has also developed a new Form DL1-55, which was revised to capture all data fields necessary for JFMIP compliance and, at the same time, is structured to facilitate entry of this data into the new DOL E-Property system. In addition, OASAM developed and issued a manual entitled "Procedures for Conducting a Physical Inventory", and accompanying training, which was used to collect baseline information to populate the new E-Property system for OASAM and other agencies. To date, approximately 300 DOL employees have been trained in the use of the new E-Property system, including staff from all agencies and from both the national office and regions.

OASAM has implemented a new E-Property system to manage DOL accountable property. The new system is JFMIP-compliant. OASAM has completed a physical inventory of accountable property in its offices nation-wide, has completed entry of the data into the E-Property system, and is using the system to maintain its property inventory. Based on these actions, we consider the recommendation, as it relates to OASAM, closed pending confirmation by the OIG.

It should also be noted that the Employment Standards Administration also is on board using the new DOL E-Property system. To date, over 70 ESA staff from locations nationwide have been trained on the system, and ESA has been using the system to record property data."

Auditors' Conclusion

Based on the information provided by management, the first recommendation is **closed**. The second recommendation remains **resolved and open** pending our verification in the FY 2005 audit that the physical inventories were complete and all property has been entered into the E-Property system.

Employment Standards Administration (ESA)

ESA did not have an adequate system in place for tracking accountable property FY 2002 and FY 2003. In response to our request of an update on the status of prior year audit recommendations, ESA stated it was selected to participate in the first pilot group to adopt the new property system. ESA participated in organizational meetings with OASAM and contractor staff and the first of multiple training sessions began in April 2004. The completion date for implementing the recommendations is December 2004.

The second recommendation remains **resolved and open** with respect to ESA pending the implementation of the property management system.

Management's Response

"Management agrees with this position."

Auditors' Conclusion

Based on information provided by management, the first recommendation is **closed**. The second recommendation remains **resolved and open** pending verification that physical inventories are complete and all property has been entered into the E-Property system.