U.S. Department of Labor

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OFFICE OF THE CHIEF FINANCIAL OFFICER

DOL NEEDS TO ESTABLISH A CENTRAL POINT OF ACCOUNTABILITY OVER THE DEPARTMENT S WORKING CAPITAL FUND OPERATIONS TO ENSURE IT MEETS THE LEGISLATIVE INTENT

Date Issued: September 28, 2010
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U.S. Department of Labor
Office of Inspector General
Office of Audit

BRIEFLY…

Highlights of Report Number 03-10-002-13-001, to the Chief Financial Officer

WHY READ THE REPORT

The Office of Inspector General OIG) conducted a performance audit of the Department's Working Capital Fund (WCF). The WCF is an intergovernmental revolving fund that operates as a self-supporting entity conducting business-like activities. It functions entirely from the fees charged to 13 customer agencies for the services it provides. In the Department of Labor DOL), the WCF is available without fiscal year limitation for the operation of a comprehensive program of centralized services as deemed appropriate and advantageous by the Secretary of Labor. The WCF services and activities are paid for by means of reimbursement in advance from DOL customer agencies to return the full cost of operations to the service providers. In fiscal year FY) 2008, WCF budgetary resources totaled $192.6 million.

WHY OIG CONDUCTED THE AUDIT

The audit objective was to answer the following question:

> Is the WCF operated according to Federal law, guidelines, and DOL policies?

The audit covered WCF operations and policies and procedures in place at the time of fieldwork, which occurred between June 2009 and February 2010. No significant policy changes covering the WCF occurred as of May 2010. Most of the analytical audit work covered FY 2008 data, which was the most recent completed fiscal year when we started the audit in June 2009.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response, go to:

http://www.oig.dol.gov/public/reports/oa/2010/03-10-002-13-001.pdf

September 2010

DOL NEEDS TO ESTABLISH A CENTRAL POINT OF ACCOUNTABILITY OVER THE DEPARTMENT'S WORKING CAPITAL FUND OPERATIONS TO ENSURE IT MEETS THE LEGISLATIVE INTENT

WHAT OIG FOUND

The Secretary of Labor assigned the CFO the responsibility for maintaining and operating the WCF. However, we found WCF responsibilities were shared between the CFO and the Assistant Secretary for Administration and Management (ASAM). CFO responsibilities included developing policies affecting WCF management and ASAM responsibilities included preparing the annual WCF budget. Additionally, a WCF Committee, which included administrative officers of customer agencies, had a review role over WCF operations.

As a result of the CFO and ASAM sharing WCF responsibilities between them, and the WCF Committee's review role, the WCF operations lacked a central point of accountability and oversight, and the need for detailed policies and procedures was not recognized. The CFO and ASAM could not ensure that WCF services and activities were appropriate and advantageous, budget estimates were reasonable, allocation methods were appropriate, charges to the WCF were reviewed, and non-personnel costs were monitored to ensure service providers properly charged them to the WCF.

Taken together, the conditions resulted in a lack of transparency to customer agencies regarding how the WCF operated. Customer agencies are not confident that the WCF is being operated in an effective and efficient manner and that WCF services and activities are appropriate and advantageous. Without reliable WCF budget estimates, customer agencies cannot effectively manage funds for their program activities. Finally, the Department's lack of monitoring of service provider costs resulted in an overstatement of FY 2008 WCF costs by $1.3 million.

WHAT OIG RECOMMENDED

We made recommendations related to revising DOL policy, clearly defining roles and responsibilities, and establishing sufficient oversight of WCF operations.

The CFO stated that management concurred with the findings, except for the finding that the Department did not follow the Secretary's policy guidance in managing the WCF.

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U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

September 28, 2010

Assistant Inspector General's Report

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The U.S. Department of Labor DOL), Office of Inspector General (OIG) conducted a performance audit of the Department's Working Capital Fund (WCF . The WCF is an intergovernmental revolving fund that operates as a self-supporting entity conducting business-like activities. It functions entirely from the fees charged to 13 customer agencies for the services it provides. In DOL, the WCF was established by Public Law (PL) 85-67 in June 1957, and is available without fiscal year limitation for the operation of a comprehensive program of centralized services as deemed appropriate and advantageous by the Secretary of Labor. Organizations typically provide common administrative activities, such as procurement, accounting, and information technology, to operating units on a centralized basis, either at the same location or by the same group, for economy and efficiency purposes. DOL's WCF services and activities include budget, accounting, payroll, procurement, human resources, information technology, and telecommunication. The WCF services and activities are paid for by means of reimbursement in advance from DOL customer agencies to return the full cost of operations to the service providers. In fiscal year (FY) 2008, WCF budgetary resources totaled $192.6 million.

The audit objective was to answer the following question:

> Is the WCF operated according to Federal law, guidelines, and DOL policies?

The audit covered WCF operations and policies and procedures in place at the time of fieldwork, which occurred between June 2009 and February 2010. No significant policy changes covering the WCF occurred as of May 2010. Most of the analytical audit work covered FY 2008 data, which was the most recent completed fiscal year when we started the audit in June 2009. To determine if the WCF operated according to Federal guidelines and DOL policies, we obtained an understanding of the WCF organizational structure and operations, analyzed cost estimates and actual collections covering FYs 2006 through 2008, and assessed the reasonableness of WCF budget estimates and the allocation methods used to charge WCF costs to customer agencies. To determine the adequacy of controls for charging non-personnel costs to the WCF and customer agencies, we analyzed a judgmental sample of 30 non-personnel transactions, totaling $36.8 million from a universe of 2,231 non-personnel transactions totaling $78.5 million. To determine if all of the WCF services and activities were appropriate and advantageous, we reviewed the current WCF Pricing Strategies Pamphlet to gain an understanding of WCF services and activities provided and compared them to the WCF provisions, which authorize legislation.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective. Our objective, scope, methodology, and criteria are detailed in Appendix B.

RESULTS IN BRIEF

The Secretary of Labor assigned the Chief Financial Officer (CFO) the responsibility for maintaining and operating the WCF. However, we found the WCF responsibilities were shared between the CFO and the Assistant Secretary for Administration and Management (ASAM). CFO responsibilities included developing policies affecting WCF management, determining customer agency contributions, and maintaining a pricing strategy to ensure customer agencies were properly charged for costs incurred by WCF service providers. ASAM responsibilities included preparing the annual WCF budget submission, apportionments and budget levels, as well as the WCF employment and staffing patterns. Additionally, a WCF Committee comprising the Office of the CFO (OCFO), the Office of the Assistant Secretary for Administration and Management (OASAM), and administrative officers of customer agencies, had a review role over WCF operations.

As a result of the CFO and ASAM sharing WCF responsibilities between them, and the WCF Committee's review role, the WCF operations lacked a central point of accountability and oversight, and the need for detailed policies and procedures was not recognized. The CFO and ASAM could not ensure that WCF services and activities were appropriate and advantageous, budget estimates were reasonable, allocation methods were appropriate, and charges to the WCF were reviewed.

Specifically, we found that DOL policy was not sufficient regarding how to determine the appropriateness and advantages of the WCF services activities, develop WCF budget estimates and allocate associated costs, or determine what monitoring controls were needed over non-personnel costs to ensure service providers properly charged them to the WCF.

- The CFO did not demonstrate that 16 percent of the services and activities funded through the WCF were appropriate and advantageous. For FY 2008, the costs charged to these services and activities were $12.5 million. Our analysis of all 127 WCF services and activities identified 20 that did not appear to represent common administrative services and activities that were appropriate to be provided to customer agencies on a centralized basis. Additionally, DOL officials provided no evidence to show how they determined these services and activities to be appropriate and advantageous.

- The WCF budget process did not provide reasonable estimates of costs or anticipated collections from customer agencies, which negatively impacted the agencies' ability to manage their appropriated funds. For FY 2008, 3 of 13 customer agencies received refunds totaling $1.1 million in the fourth quarter. Such end-of-year refunds limited the agencies' ability to effectively plan how to use these funds.

- The Department did not always maintain sufficient information to support that its allocation methodology for charging costs to customer agencies was appropriate. Likewise, the Department did not provide sufficient information to customer agencies on the data supporting their assessment amounts. Without sufficient information, the customer agencies were unable to determine if the bases used to allocate WCF costs to them were reasonable or if the data used to assess WCF costs was accurate.

- The CFO had no monitoring controls in place to ensure that service providers properly charged non-personnel costs to the WCF. Our judgmental sample of 30 non-personnel transactions consisting mostly of contracts and totaling more than $36 million found 5 non-personnel transactions totaling $1.3 million, in which service providers re-categorized the costs from non-WCF to WCF cost centers, charged costs not related to the WCF, or charged costs to the WCF that were outside of the contract's performance period.

Taken together, the conditions resulted in a lack of transparency to customer agencies regarding how the WCF operated. Customer agencies are not confident that the WCF is being operated in an effective and efficient manner and that WCF services and activities are appropriate and advantageous. Without reliable WCF budget estimates, customer agencies cannot effectively manage funds for their program activities. Finally, the Department's lack of monitoring of service provider costs resulted in an overstatement of FY 2008 WCF costs by $1.3 million.

We made recommendations related to revising DOL policy, clearly defining roles and responsibilities, and establishing sufficient oversight of WCF operations.

CFO Response

In response to the draft report, the CFO stated that management concurred with the findings, except for the finding that the Department did not follow the Secretary's policy guidance in managing the WCF. However, the CFO stated the Department is committed to reviewing the WCF management, including mechanisms to improve collaboration with DOL agencies and the WCF Committee. The CFO responded that the Department was finalizing a contract for an evaluation of DOL’s collection and expenditure of WCF assessments.

OIG Conclusion

We believe that current DOL policy needs to be revised in order ensure a central point of accountability and oversight is established for operating and maintaining the WCF and ensuring it meets the legislative intent.

RESULTS AND FINDINGS

Objective — Is the WCF operated according to Federal law, guidelines, and DOL policies?

WCF operations lacked a central point of accountability and oversight, and the need for detailed policies and procedures was not recognized.

The Secretary of Labor assigned the CFO the responsibility for maintaining and operating the WCF. However, we found that DOL policy shares the WCF responsibilities between the CFO and the ASAM. We also found that the Department did not have a process for demonstrating how it determined WCF services and activities were appropriate and advantageous, the WCF budget process did not provide reasonable estimates of collections from customer agencies; OASAM and OCFO did not have sufficient information available to support that the methodology used for allocating costs was appropriate and the supporting data used to charge the costs were accurate; and the OCFO did not have monitoring controls in place to review non-personnel costs that service providers properly charged these costs to the WCF.

Finding 1 — The CFO did not have the overall responsibiltiy for WCF operations as required by the Secretary s Order.

The Secretary of Labor assigned the CFO the responsibility for maintaining and operating the WCF. However, we found that DOL policy shares the WCF responsibilities between the CFO and the ASAM. This segregation of responsibility resulted in the lack of a “single point of accountability” for WCF operations and the availability of one point of contact for customer agency inquiries and concerns.

Secretary’s Order 04-2009, Authority and Responsibilities for Implementation of the Chief Financial Officers Act of 1990 and Related Legislation, January 15, 2009, states that the CFO is responsible for maintaining and operating the WCF. Maintain and operate the WCF that:

- Ensures customer agencies access to meaningful information on the full costs of those centralized services, conditions for usage, and the cost allocation formulas employed in the lawful distribution of annual charges against the respective agency appropriation accounts; and

- Ensures, through the creation and regular convening of a WCF Committee, the opportunities for meaningful and informed customer agency participation or representation in reviewing WCF activities, costs, and charges, and in recommending changes or improvements to the CFO.

We found that DOL policy did not meet the intent of the Secretary's Order. The Department of Labor Manual Series (DLMS) 6, Chapter 1200, Section 1207, showed the WCF responsibilities were shared between the OCFO and OASAM, and the WCF Committee had a review role over WCF operations. The OCFO responsibilities included developing policies affecting WCF management, determining customer agency contributions, and maintaining a pricing strategy to ensure customer agencies were properly charged for cost incurred by WCF service providers. OASAM responsibilities included preparing the annual WCF budget submission, apportionments and budget levels, as well as the WCF employment and staffing patterns. The WCF Committee review role over WCF operations consisted of meetings twice a year. However, the OCFO did not document the meeting results and decisions made. Customer agency representatives who attended the WCF Committee meetings told us they did not feel they were meaningful and only used to provide budget estimates and assessments.

The Department believes the sharing of responsibilities as described in DLMS 6, Chapter 1200 is consistent with the intent of the Secretary's Order. Officials stated there is a history of shared oversight over WCF operations among the CFO, ASAM, and the WCF Committee. By reviewing the context of the CFO's WCF responsibilities and comparing them to other non-WCF financial program responsibilities described in the previous Secretary's Order — 1-97, dated January 10, 1997 — and the current Secretary's Order, the CFO is responsible for the accounting and running of the fund's daily operations, not managing it. Management implies broader authority, responsibility, and control.

We disagree that the Department's sharing of responsibilities, as described in DLMS 6, Chapter 1200, is consistent with the intent of the 2009 Secretary's order. Comparing the 1997 Secretary's Order to the 2009 Secretary's Order shows that the CFO's role changed from overseeing the WCF to operating and maintaining the WCF. Regardless of the Department's interpretation of the 2009 Secretary's Order, the WCF operations needed a central point of accountability and oversight. Without this, the Department did not ensure that customer agencies had access to meaningful information on the full costs of the WCF services, conditions for usage, or the cost allocation formulas employed in the lawful distribution of annual charges against the respective agencies' appropriation accounts.

Department officials believe that customer agencies were provided meaningful information and opportunities for participation and representation. Department officials stated that, at least four weeks prior to a WCF meeting, the OCFO solicits customer agencies' questions and concerns. At the meetings, customer agencies are provided with detailed information and a forum to ask questions, voice their concerns, and request additional information, follow up, and meetings with OCFO WCF staff. Officials said that the OCFO also communicates other information during the year that is relevant to WCF operations.

Our review of documentation provided throughout the audit and our discussions with customer agency representatives found that the CFO did not provide customer agencies meaningful information or opportunities for participation and representation in the WCF meetings.

Finding 2 — The CFO did not demonstrate that 16 percent of the services and activities financed through the WCF were appropriate and advantageous to the Department as required by law.

DOL's process for reviewing and adding services and activities to the WCF was not adequate because it did not include a determination of how services and activities met legislative requirements and it did not include input from the WCF Committee. Our analysis of all 127 WCF services and activities identified 20 (16 percent) that did not appear to represent common administrative services and activities that were appropriate to be provided to customer agencies on a centralized basis. For FY 2008, the costs charged for these 20 services and activities were $12.5 million. Although DOL described a review process they used, they provided no evidence of how they determined these services and activities to be appropriate and advantageous. As a result, customer agencies may continue to expend more than $12.5 million on these 20 services and activities that may not be advantageous to the Department.

The legislation authorizing the DOL WCF, codified in Title 29, United States Code (29 U.S.C.), Sections 563, 563a, and 564, provided that the WCF be available for expenses necessary for the maintenance and operation of a comprehensive program of centralized services which the Secretary of Labor may prescribe and deem appropriate and advantageous. Sections 563 and 564 listed the following eight services and activities that DOL could fund through the WCF:

1. central reproduction
2. central visual exhibit
3. central supply for supplies and equipment
4. central tabulating
5. telephone, mail, and messenger
6. central accounting and payroll
7. a central laborers' service
8. personnel functions in regional administrative offices

Section 563a gave the Secretary of Labor some discretion in selecting items for the WCF as long as they provided for the maintenance and operation of a comprehensive program of centralized services which the Secretary deemed appropriate and advantageous. Neither the legislation nor DOL policy defined a comprehensive program of centralized services. Therefore, based on our understanding of cost principles, we concluded that organizations typically provide common administrative activities, such as procurement, accounting, and information technology, to operating units on a centralized basis, either at the same location or by the same group, for purposes of economy and efficiency.

DOL's policy in DLMS 6, Financial Management WCF, Chapter 1207c 8), requires DOL officials to conduct periodic reviews of the WCF service organizations to determine if they are appropriate. Additionally, DLMS 6, Chapter 1207 (a), explains that WCF Committee responsibilities include reviewing the programs, functions, and activities performed and financed through the WCF or proposed to be performed and financed through the WCF.

DOL developed the Pricing Strategies Pamphlet to provide a description of WCF services and activities, the associated Responsibility Center Code (RCC) and the allocation method used to charge costs. WCF authorizing legislation also specifies services for which the WCF should be available. We compared the two documents and used auditor judgment to determine if the services and activities that DOL categorized as WCF met the legislative intent; that is, they were centralized in nature.

Of the 20 services and activities that did not appear to be centralized, 6 consisted of offices that provided direction, administration, and oversight that should be covered under appropriated funds for Departmental Management. Others, such as the Executive Secretariat, Program, Planning and Results Center, and Regional Offices of Public Affairs (OPA) did not appear to represent centralized services available to all the Department's agencies. There was no information in the Pricing Strategies Pamphlet for the Information Technology Center ITC) Reimbursable and Division of MEO Management. The following table lists the 20 services and activities that did not appear to be centralized and their FY 2008 costs.

Table 1 – List of Services and Activities That Did Not Appear to be Centralized			
	Service and Activity	Explanation	FY 2008 Costs
1.	Business Operations Center BOC), Office of the Director	Provides direction, administration, and management services.	$782,828
2.	BOC Division of Procurement Policy	Provides support and oversight of the Departments' acquisition and grants process.	$186,205
3.	BOC, Office of Administrative Services, Office of the Director	Provides direction, administration, and management services.	$493,971
4.	BOC, Office of Administrative Services, Office of Facilities Management	Provides guidance and direction of the Director over facilities management services.	$464,993
5.	Office of Security and Emergency Management, Immediate Office	Provides Departmental leadership on all matters of National Security, Homeland Security, and emergency management for DOL.	$568,914
6.	Office of the Chief Information Officer	Provides Department-wide policy, oversight, and management to ensure compliance with IT laws.	$3,569,261
7.	Executive Secretariat	Provides clearance and concurrence of the Department's communications and correspondences.	$3,762,940
8.	Program, Planning and Results Center, Historian and Freedom of Information Acts	Performs research on the history of the programs and policies of DOL. The Historian conducts interviews with Department officials when they leave office and responds to queries from outside institutions and the general public.	$169,271
9.-18.	OPA Region (10 Regions and Cost Centers)	Provides the Department with a regional information educational program designed to bring about the widest possible public understanding and support of the Department's programs and services and help ensure compliance with Department laws.	$2,271,183
19.	ITC Reimbursable	Not in the Pricing Strategies Pamphlet	$158,000
20.	Division of MEO Management	Not in the Pricing Strategies Pamphlet	$111,590
Total Costs for FY 2008			**$12,539,150**

Department officials believed that the first four items listed in Table 1 were for direct management and oversight of services and processes in the WCF; and therefore, the costs associated with these needed to be included in the WCF.

We disagree that the costs for management and oversight solely justifies its inclusion in the WCF. Portions of the costs for the management and oversight listed in Table 1 were also charged to Departmental Management. However, the Department did not show how it determined that the basis for allocating costs between the WCF and Departmental Management was appropriate and advantageous to the WCF.

Department officials believed that the remaining items listed in Table 1 provided services that were used by all agencies and an in-depth review of their activities clearly showed that centralization of Departmental activities was integral to the services the offices provided.

Our review of documentation provided to us during the audit did not include any in-depth review of WCF services and activities or how they were clearly centralized and appropriate and advantageous for the WCF.

DOL's process for reviewing and adding services and activities to the WCF was not adequate because it did not include a determination of how services and activities met legislative requirements and it did not include input from WCF Committee, the latter required by DOL policy. DOL officials stated they used the Department's annual budget process for reviewing and adding services and activities to the WCF. This process consisted of OASAM's Departmental Budget Center preparing an analysis of the WCF budget submission and providing it to the Deputy Secretary of Labor and the Departmental Budget and Performance Team for their consideration of the proposed WCF budget. For new initiatives for the WCF, advisement was sought from the Solicitor of Labor as to whether new initiatives are eligible to be WCF items. DOL officials stated there are often meetings with the service providers for additional information on their proposed WCF initiatives. They also explained that many of the items were added to the WCF years ago and, therefore, they did not have documentation to substantiate the initial review process.

We concluded that DOL's decision-making process was not adequate because it did not consider if the proposed initiatives were appropriate and advantageous to WCF and did not involve the WCF committee. Our review of the Analysis of the Working Capital Fund FY 2008 Budget Submission showed that the main consideration for including items in the WCF was the cost of the service. For example, OASAM requested $71,000 for the continuing operation and maintenance of the E-Procurement System under Procurement Support. DOL's justification for not approving this initiative was that the requested amount could be absorbed within current operations. In contrast, OASAM requested $2 million for its Human Resource Line of Business, which DOL approved without documenting how the fund would be used for a centralized service or activity that was appropriate and advantageous. The Departmental Budget and Performance team did not include the WCF Committee in the decision-making process. Furthermore, although OASAM officials told us that they conducted workshops in 2008 with the WCF Committee's designated representatives for the purpose of evaluating all the WCF service and activities, we were provided no documentation to substantiate what occurred or what decisions were made as a result of the workshops.

As a result of the inadequacies in DOL's process for reviewing and adding services and activities to the WCF, customer agencies may continue to expend more than $12.5 million on services and activities that may not be advantageous to the Department. Additionally, without involvement of the WCF Committee, there is a lack of transparency to the customer agencies on how items are added to the WCF and how they are beneficial to the customer agencies that fund the WCF.

Finding 3 — The WCF budget process did not provide reasonable estimates of funds needed from the customer agencies.

The Department did not ensure the WCF budget process provided reasonable estimates of funds needed to be collected from the customer agencies to reimburse the service providers for their costs. This negatively impacted the customer agencies' ability to manage their appropriated funds. Our analysis of FYs 2006 through 2008 showed that the estimated funds needed (referred to as anticipated collections) in the WCF spending plans fluctuated widely and were disproportionate to the actual amount of funds collected. This occurred because DOL did not have procedures designed to analyze budget estimates and cost trends so that adjustments could be made from year to year. Instead, DOL relied on general Departmental budget guidance that was not specific to the WCF.

Federal guidelines for agency budgets are contained in the Office of Management and Budget (OMB) Circular A-11, Preparation, Submission, and Execution of the Budget. Section 120.22 of A-11 states that agencies should ensure that the apportionment and its supporting financial plan are based on a careful forecast of obligations to be incurred under the work programs or operations planned during the year. Section 120.32 further requires agencies to use appropriate internal controls in preparing apportionment requests.

For the WCF budget, OASAM budget officials prepared the Standard Form (SF) 132, Apportionment and Reapportionment Schedule, which was a plan, approved by OMB, to spend resources provided by law. The primary purpose of the apportionment was to prevent agencies from obligating funds in a manner that would require deficiency or supplemental appropriations and achieve the most effective and economical use of amounts made available. The SF-133, Report on Budget Execution and Budgetary Resources, allows monitoring of the SF-132. For the WCF, the SF-132 contained the amount of anticipated collection of funds needed from customer agencies for the estimated WCF costs and the SF-133 reported the amount of actual collections received from the customer agencies for the actual WCF costs. OASAM and the OCFO used the SF-132's estimated amounts as the basis for determining each customer agency's share of WCF estimated costs, which they were to include in their respective agency budget estimates so the funds would be available for the OCFO to collect.

OASAM budget officials explained that they used the general departmental guidance, which was not specific to the WCF, in preparing the WCF budget estimates. In addition to the Departmental guidance, the OASAM budget officials stated that they established practices for determining the WCF estimates which included, requesting potential changes/new incentives/special projects, using the prior-year request amounts as the base, and using OMB inflationary factors. According to the Department, at the time the President's Budget is transmitted to Congress, the total amount of the WCF is supported by total expected payments in the Agency budget requests as displayed in the object class tables in the Congressional Budget Justifications.

Our three-year comparison of the SF-132s and SF-133s showed WCF estimates of agency collections were consistently unreliable. For FY 2006, the budgeted anticipated collections were approximately $2.6 million less than what was actually collected from customer agencies. Conversely, for FYs 2007 and 2008, the budgeted anticipated collections were more than actual collections by $7.2 million and $6.3 million respectively. The following table provides a comparison of the anticipated collections reported on the SF-132 to the actual collections reported on the SF-133 for FYs 2006-2008:

Table 2 – Comparison of Anticipated Collections to Actual Collections From Customer Agencies for FY 2006 though FY 2008

Collections Reported	FY 2006	FY 2007	FY 2008
Anticipated Collections (SF-132)	$154,690,000	$178,264,000	$187,955,000
Actual Collections (SF-133)	$157,316,815	$171,039,351	$181,692,325
Difference	$(2,626,815)	$ 7,224,649	$ 6,262,675

Because customer agencies are required to include in their own budget estimates the portion of WCF anticipated collections that are assigned to them by the Department, the lack of reasonable budget estimates negatively impacts the customer agencies' ability to manage their appropriated funds. For example, in FY 2008, 3 of the 13 customer agencies received refunds totaling $1,152,413 at the end of the fiscal year, making it difficult for them to effectively plan how to use these funds. Our analysis of one of the three agencies showed that, in addition to the $875,099 WCF refund the agency received, the OCFO also collected $376,423 less than what it had originally estimated for the agency's WCF assessment. As a result, the agency had $1,251,522 in funds available to it at the end of the fiscal year, which left very little time to determine how best to use the funds.

Department officials stated that DOL has not had a full-year appropriation prior to the beginning of the fiscal year in more than 10 years. Because of this, the initial SF-132 for the WCF is based on the budget request to Congress. Once a final budget is enacted, WCF operations are adjusted for new targets and a new SF-132 is generated. The total amount on the new SF-132 is used to re-estimate agency charges and those estimates are shared with the agency. Department officials also stated that the SF-132 and SF-133 usually do not match because the WCF is not funded through direct appropriations, but through collection of agency appropriations. The SF-132 sets the maximum that can be obligated in the WCF, but often total obligations are below the maximum. Since the WCF can only collect on services rendered instead of authorized by the SF-132, the actual collections will differ from anticipated collections.

Our analysis of data from the new SF-132s found that the difference between actual and anticipated collections still exceeded $1 million. We agree with the Department that the actual collections will differ from the anticipated collections, but it must develop and implement procedures that will decrease the amount of the difference. To that end, the CFO told us that the Department is currently finalizing a contract for an evaluation of DOL's collection and expenditure of WCF assessments.

We concluded that using general departmental guidance, which is not specific to the WCF, is not adequate, as demonstrated in our analysis of the data from the SF-132 and SF-133. The process needs to consider historical data to develop estimates, verify cost data submitted by service provider agencies, and adjust the estimates accordingly.

Finding 4 — The CFO could not always demonstrate that the methodology used for allocating costs was appropriate and the supporting data used to charge the costs were accurate.

The OCFO did not always have sufficient information available to demonstrate that the methodology used for allocating costs to customer agencies was appropriate, did not use an appropriate method to allocate costs for the National Call Center, or did not have sufficient information available to support that the data used to charge the costs were accurate. This occurred because the OCFO did not have a decision-making process in place that involved all responsible parties to ensure sufficient information was obtained and reviewed to evaluate the appropriateness and equity of the bases used to allocate and charge WCF costs to the customer agencies. Additionally, the OCFO's procedures did not allow for independent reviews of the allocation calculations or supporting data by customer agencies. As a result, DOL officials cannot demonstrate the appropriateness of the allocation methods it used for 11 (16 percent) of the 70 service providers, or that approximately $15.7 million in costs were equitably allocated.

DLMS 6, Chapter 800, Managerial Cost Accounting, Section 827, Cost-Benefit Considerations, provided the order of preference for assigning costs as follows: (1) directly tracing costs whenever feasible and economically practicable; (2) assigning costs on a cause-and-effect basis; and (3) allocating costs on a reasonable and consistent basis. Additionally, when assigning costs, agency management should consider the cost-benefit aspects of gathering, recording, processing, reporting, and reconciling managerial cost accounting information. DLMS 6, Chapter 1200, Financial Management Section 1207 a(3) gave the WCF Committee the responsible for reviewing the proposed and existing programs, functions, and activities performed through the WCF. Additionally, the WCF Committee is responsible for evaluating the appropriateness and equity of cost allocation percentages used in DOL's accounting system and approving the strategies for billing.

The OCFO did not have sufficient information available to demonstrate that the methodology used for allocating costs for 11 service providers was appropriate.

The OCFO did not have sufficient information to support the appropriateness of the method used to allocate costs for 11 (16 percent) of the 70 service providers in the WCF. The cost for these 11 service providers in FY 2008 was approximately $15.7 million. For example, the Division of Space and Telecommunications is described as providing assistance for real property acquisition and space and administering the General Services Administration space rental bill. The cost for this service provider was allocated based on National Office employees, excluding the Bureau of Labor Statistics (BLS). Additionally, the method applied a 25 percent discount to agencies outside of the Frances Perkins Building (FPB) — Employment Standards Administration (ESA), Solicitor of Labor, and the Mine Safety and Health Administration (MSHA). Neither OCFO nor the service provider had information to explain why they used employment instead of usage to allocate space and telecommunication costs, or how they determined the 25 percent discount for the outside agencies. See Exhibits 1 through 3 for a list of the 11 service providers for whom OCFO did not have sufficient information to support the appropriateness of the method used to allocate service provider costs to customer agencies.

The OCFO did not use an appropriate method to allocate costs for the National Call Center.

We found one instance where, given available information, we determined the allocation method OCFO used to allocate a service provider's cost was not appropriate. For the National Call Center, OCFO used employment levels to allocate costs when it would have been more appropriate to have used the usage method, as the National Call Center had a system to track calls pertaining to specific customer agencies. For FY 2008, the costs allocated for the National Contact Center totaled $2,862,665.

The OCFO did not have sufficient information available to support that the data used to charge the costs was accurate.

The OCFO's process for allocating costs to customer agencies lacked controls in that it did not provide the supporting data used to allocate cost to customer agencies so that they could review its accuracy. To allocate usage costs, the service providers submitted a Cost Recovery Report (CRR) on a monthly basis to the OCFO to be processed and entered into the WCF module for subsequent allocation. Each service provider's CRR contains activity cost data specific to the customer agency that used the service. The OCFO accepted the data without further review and allocated the costs to the customer agencies using the WCF module in DOL's accounting system.

The OCFO provided a monthly WCF Status Report — the D331 — to customer agencies that provided only current month and year-to-date charges without any detail to support how the charges were derived. Several customer agencies told us they wanted to know the detailed information that supported the charges in the D331. For example, one customer agency said that for the Transit Subsidy service category they wanted the detail supporting the allocation in order to verify that the list of employees for their specific agency was accurate.

The Department believed that customer agencies do have adequate access to detailed cost data for charges through the WCF. Department officials stated that the OCFO has always served as a point of liaison between service providers and customer agencies by providing detailed information to the latter upon their request and also setting up meetings, as needed, between the parties to provide a better understanding of the charges and/or services provided. Department officials also stated that all customer agencies receive a copy of the D331 along with copies of the CCR for further detailed information of the charges reflected in the D331.

Our discussions with customer agency representatives found that the OCFO did not provide customer agencies with detailed cost data. Regardless, to do so on only a request basis is not sufficient. For control purposes, the OCFO needs to routinely provide customer agencies support for the information in the D331 and the CCR, so they can verify that the usage data used to allocate the costs for their respective agencies are accurate.

Finding 5 — The CFO did not have monitoring controls in place to review non-personnel costs that service providers charged to the WCF.

The OCFO had no monitoring controls in place to review the non-personnel costs that service providers charged to ensure they were properly charged to the WCF. Our judgmental sample of 30 transactions totaling more than $36 million found that five transactions totaling $1.3 million, in which the costs were re-categorized from non-WCF cost centers to WCF costs center; were not related to the WCF; or occurred outside the contract’s performance period, the latter of which were unallowable. OCFO officials told us the DOL accounting system in place at the time of our audit could not provide the cost reports necessary to review the costs charged to the WCF, and they agreed that a monitoring process should be established.

OMB Circular A-123, Management’s Responsibility for Internal Control, Section II, Standards, requires that periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. DLMS 6, Chapter 1200, Section 1207(b)(4) provided that the OCFO, in cooperation with OASAM, is responsible for prescribing procedures to ensure the fiscal soundness and efficient management of the WCF and maintaining and operating an appropriate accounting system reflecting fund receipts and disbursements, and costs and charges incurred by customer agencies. The Federal Acquisition Regulation (FAR) Subpart 31.201-2 (a)(4), Determining Allowability, states that a cost is allowable only when the cost complies with the terms of the contract.

Costs were recategorized as WCF charges without justification.

For FY 2008, two transactions totaling $646,859 were originally obligated to non-WCF cost centers but were later charged to the WCF without an explanation as to what had occurred to justify the recategorization. The details of each transaction follow:

Transaction 1

The Office of the Secretary (OSEC) reversed costs and charged them to a WCF cost center — the Executive Secretariat — that were originally obligated to a non-WCF cost center — Departmental Management, Program Direction and Support. These costs related to a contract providing administration and management support for services such as help desk activities, liaison between OSEC and visitors, file maintenance, meeting preparation and organization, correspondence reviewing and editing, and phone call screening. The Pricing Strategies Pamphlet describes the Executive Secretariat as charges for the clearance and concurrence of the Department's communications and correspondence. OSEC originally charged $381,371 to the non-WCF cost center, but at the end of the fiscal year, reversed $318,799 of the costs to the WCF cost center. OSEC and the OCFO did not have documentation explaining why the costs were reversed and, ultimately, $581,973 was charged to the Executive Secretariat. Prior to FY 2008 — from February 2005 through September 30, 2007 — $963,493 in costs for these same support services were charged to the non-WCF cost center.

Transaction 2

OASAM charged a portion of costs to the ITC Office of the Chief Information Officer (OCIO) WCF cost center that were originally obligated to the ITC OCIO non-WCF cost center. The costs were for a blanket purchase agreement (BPA), in which a contractor provided systems development life cycle support for the Department’s implementation of the Homeland Security Presidential Directive-12. The Pricing Strategies Pamphlet describes the ITC OCIO as charges for services to support Department-wide policy, oversight, and management to ensure compliance with various federal laws and initiatives concerning IT. During the fiscal year, obligations to incrementally fund the BPA were made to the non-WCF cost center. However, $64,886 of the total $296,625 paid for the BPA was charged to the ITC WCF cost center[1]. An ITC official told us they could use any funding that was available at the time to pay the BPA costs. The ITC official provided DL Form 1-280 which authorized the transfer of funds from the non-WCF cost center to the WCF cost center. The document showed only that the transfer was due to an administrative error that was being corrected.

[1] The remaining $231,739 was charged to the ITC OCIO non-WCF cost center.

Costs not related to the WCF were charged to the WCF.

DOL charged contract costs of $600,000 for interagency agreement costs that were not related to the WCF. The costs were for an interagency agreement between DOL and the Federal Emergency Management Agency (FEMA) in the Department of Homeland Security for developing and maintaining an online disaster benefits portal to provide quick and efficient disaster assistance benefits program information to the general public and creating a single ad hoc applicant interview for multiple disaster assistance programs. We determined that based on the nature of the agreement with FEMA, the costs should be charged to only the agencies providing benefits in the event of a major disaster, which within DOL would be the Employment and Training Administration (ETA). Therefore, the Department should not have charged the agreement costs to the WCF.

Unallowable contract costs were charged to the WCF.

For two transactions, unallowable contract costs totaling $118,704 were charged to the WCF. One was because the costs were for services rendered prior to the period specified in the contract and the other was for services related to a prior contract. The details of each contract follow:

Transaction 1

On September 28, 2007, OASAM awarded a labor-hour contract for the Emergency Management Center for emergency management center and pandemic influenza planning support services. The performance period was October 1, 2007, through September 30, 2008. A payment for $66,178.35 was disbursed on March 27, 2008, for an invoice showing that it was for services rendered September 1 through 30, 2007. Because this was outside the period of performance specified in the contract and task order, the costs are unallowable.

Transaction 2

On September 18, 2007, OPA received a labor-hour contract for comprehensive communications and customer support services for the DOL call center. The performance period for the base year, was October 1, 2007, through September 30, 2008, with three succeeding option years through September 30, 2011. A payment for $52,526 was disbursed on June 23, 2008, for an invoice showing that it was for services rendered through September 30, 2007, which was before the period of performance for the contract. Further review showed the invoice did not reference the contract number and the invoice's support document listed the contractor employee and hours but did not provide the dates worked. Because this invoice was outside the period of performance specified in the contract, the costs are unallowable.

The Department disagreed that unallowable costs were charged to the WCF because both of the sampled transactions were for multi-year contracts, which allowed for payments for services rendered for the month of September 2007, to be made during FY 2008.

We did not agree with the Department because the sampled items questioned were for contracts in which the original multi-year contract had ended and the subsequent contract was awarded to the same vendor. Therefore, the costs related to the prior contract should not be charged to the subsequent contract.

RECOMMENDATIONS

We recommend that the Chief Financial Officer:

1. Revise the DLMS 6, Chapter 1200 to assign a single authority over WCF operations from budget formulation to execution.

2. Formalize the process for reviewing WCF services and activities to include involvement of the WCF Committee and ensuring that the determination that the services are appropriate and advantageous to the WCF is documented and available to the customer agencies.

3. Review, with the WCF Committee, the 20 services cited in the report to determine if they are appropriate and advantageous, and document the determination.

4. Ensure that the Pricing Pamphlet includes all WCF services and activities and provides an adequate description of the services provided so that the user agencies understand how they are benefitting from the services being charged.

5. Ensure the Pricing Pamphlet is updated annually, the WCF Committee works with OASAM and the CFO to ensure it is accurate and complete, signed off by all parties, and made available to the customer agencies on the OCFO website.

6. Develop policies and procedures for staff to follow when preparing WCF budget estimates. This should include procedures for:

    - Involving the WCF Committee in the budget process;

    - validating the estimates submitted by the service providers; and

    - incorporating trend analysis of prior-year budgets to identify adjustments needed to address the cause(s) of estimates that were disproportionate to the WCF charges.

7. Develop and implement procedures for reviewing the allocation methodologies which includes involvement of the WCF Committee.

8. Develop a process to provide customer agencies sufficient information to support cost assessment.

9. Develop and implement procedures for performing periodic reviews of costs charged to the WCF by service providers

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

Elliot P. Lewis

Elliot P. Lewis
Assistant Inspector General
for Audit

Exhibits

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Exhibit 1

Allocation Methods With Insufficient Information

1	**Office of Administrative Services** **Division of Space and Telecommunications** **RCC 6520QDB8,** **FY 2008 Costs - $1,378,365.91** Costs were allocated based on National Office employees, excluding BLS. A 25 percent discount was applied to agencies outside of the FPB — ESA, Solicitor of Labor, and MSHA. OCFO did not have sufficient information explaining how the 25 percent discount for the out side agencies was determined, or why employment was used instead of usage for space and telecommunications.
2	**Office of Administrative Services,** **Division of Customer Services,** **Moving Services** **RCC 6510QDB8** **FY 2008 Costs - $130,725.64** Most costs were directly charged based on usage; however, a portion was allocated based on FPB employment. OCFO did not have sufficient information explaining why employment was used for a portion of the costs instead of usage for moving services.
3	**Office of Administrative Services,** **Division of Customer Services** **RCC 6510QDB8** **FY 2008 Costs - $ 479,281.46** Costs were allocated based on National Office employees, excluding BLS and MSHA . A 50 percent discount was applied to agencies outside of the FPB — ESA, Solicitor of Labor, and the OSEC. OCFO did not have sufficient information explaining how the 50 percent discount for the out side agencies was determined or why this methodology differed from the one used to allocate costs for the Division of Space and Telecommunications (See Number 1 .

4	**Office of Administrative Services, Division of Facilities Management** **Office of the Director** **RCC 6581QDB8** **FY 2008 Costs - $1,552,101.10** Costs were allocated based on National Office employment. OCFO did not have sufficient information explaining why this method was not consistent with methods used for the other Office of Administrative Service cost centers related to FPB facilities management.
5	**Regional Expenses** **RCC 6200QDB6** **FY 2008 Costs - $4,392,198.23** Costs were allocated based on regional employment. The costs consisted of Federal Employees' Compensation Act (FECA) payments and arbitration fees. OCFO did not have sufficient information describing the nature of the FECA payments and arbitration fees in order to determine if using regional employment was more appropriate than charging the costs directly to the employing agency.
6	**Human Resources Center,** **Office of Executive Resources and Personnel Security** **RCC 6110QDCJ** **FY 2008 Costs $910,386.51** The majority of the costs (89 percent) were allocated to OASAM and OSEC client agencies, and the remaining amount (11 percent) was allocated based on employment. OCFO did not have sufficient information explaining how the percentages were determined and the client agencies were not identified.
7	**Human Resource Center** **Office of Human Resources Consulting and Operations OHRCO)** **RCC 6120QDCJ** **FY 2008 Costs - $1,782,590.55** The majority of the costs (89 percent) were allocated to OASAM and OSEC client agencies, and the remaining amount (11 percent) was allocated to DOL employment. OCFO did not have sufficient information explaining how the percentages were determined and the client agencies were not identified.

8	**Human Resource Center OHRCO** **Division of Operations and Systems** **RCC 6125QDCJ** **FY 2008 Cost – Reported in RCC 6120QDCJ** A portion of the costs were allocated to OASAM and OSEC client agencies, 89 percent, and the remaining amount (11) percent was allocated to DOL employment. OCFO did not have sufficient information explaining how the percentages were determined: and the client agencies were not identified.
9	**Office of Acquisition Management Services,** **Division of Procurement Policy** **RCC 6270QDB8** **FY 2008 Costs - $282,566.72** Costs were allocated based on DOL employment. OCFO did not have sufficient information available to determine why using DOL employment as an allocation bases was more appropriate than using procurement activity.
10	**BOC- Office of Competitive Sourcing** **RCC 6280QDB8** **FY 2008 Costs - $479,631.74** Costs were allocated based on DOL employment. OCFO did not have sufficient information available to determine why using DOL employment as an allocation bases was more appropriate than basing it on the level of effort DOL agencies are involved in competitive sourcing.
11	**Office of the Secretary, Executive Secretariat** **RCC 6001QDB8** **FY 2008 Costs 4,349,070.63** Costs were allocated based on DOL employment. OCFO did not have sufficient information on the type of communication and correspondences processed in order to determine if using DOL employment as an allocation bases was more appropriate than agency usage.

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Appendices

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Appendix A

Background

The WCF is an intergovernmental revolving fund that operates as a self-supporting entity conducting business-like activities. It functions entirely from the fees charged to customer agencies for the services it provides. In DOL, the WCF was established by PL 85-67 in June 1957, and amended by PL 86-703 and PL 91-204, and is available without fiscal year limitation for the operation of a comprehensive program of centralized services as deemed appropriate and advantageous by the Secretary of Labor. Organizations typically provide common administrative activities, such as procurement, accounting, and information technology, to operating units on a centralized basis, either at the same location or by the same group, for economy and efficiency purposes.

Sections 563 and 564 listed the following eight services and activities that DOL could fund through the WCF:

1. central reproduction
2. central visual exhibit
3. central supply for supplies and equipment
4. central tabulating
5. telephone, mail, and messenger
6. central accounting and payroll
7. central laborers' service
8. personnel functions in regional administrative offices

In 1993, the law was amended and codified in 29 U.S.C., Section 563a, and gave the Secretary of Labor some broad discretion as to what services were deemed appropriate to finance through the WCF.

DOL's WCF services and activities include budget, accounting, payroll, procurement, human resources, information technology, and telecommunication. The WCF services and activities are paid for by means of reimbursement in advance from DOL customer agencies to return the full cost of operations to the service providers. In FY 2008, WCF budgetary resources totaled $192.6 million. The WCF is part of the Departmental Management Budget, which for FY 2008 was $291.9 million. DOL's enacted budget for FY 2008 was $49.8 billion, which consisted of $11.6 billion for discretionary programs and $38.2 billion for mandatory programs, which consist of advances to the Unemployment Trust Fund and Pension Benefit Guaranty Corporation.

Secretary's Order 04–2009, Authority and Responsibilities for Implementation of the Chief Financial Officers Act of 1990 and Related Legislation, January 15, 2009, assigned the CFO the responsibility for maintaining and operating the WCF. DOL policy in the DLMS 6, Chapter 1207, September 2, 2001, provided that the CFO and the ASAM cooperate and partner with each other in meeting their responsibilities for various aspects of operating and administering the WCF. Additionally, the WCF Committee, which consists of senior management officials from the OCFO, OASAM, and the administrative officer of customer agencies, has a review role over WCF operations.

The WCF committee is suppose to meet twice annually and has the following responsibilities:

- Reviewing overall policies, procedures, systems, and regulations to ensure their currency, effectiveness, and compliance in administering the WCF.

- Reviewing the WCF budget and making recommendations for changes and/or modifications as necessary.

- Reviewing the programs, functions, and activities performed and financed through the WCF or proposed to be performed and financed through the WCF, and evaluating the appropriateness and equity of cost allocation percentages used in the WCF subsystem in DOL's accounting system.

- Developing and implementing a system of performance measures to evaluate efficiency and effectiveness of fund operations, e.g., processing times, cost and quality of outputs, and customer satisfaction.

- Reviewing periodically, either through WCF Committee meetings or reports furnished by OASAM and OCFO, the status of WCF operations as compared with approved plans.

- Reviewing and approving customer requests for obtaining services outside the WCF.

The OCFO is responsible for the following:

- Developing overall WCF policy, and prescribing rules, regulations, systems, and procedures to ensure the fiscal soundness and efficient management of the WCF.

- Conducting financial reviews on the status of WCF operations and the adequacy of the allocation percentages for assessing charges for services.

- Maintaining and operating the accounting and reporting system for the WCF operation and initiating WCF Service Agreements between the service and customer agencies. This includes acting as central point of contact to disseminate timely internal financial cost data and managing the use of WCF unobligated balances consistent with enabling and authorizing legislation.

- Consulting with the WCF Committee on the programs, functions, and activities to be performed and financed through the WCF and providing oversight to periodic review of WCF RCCs for validation and reviewing all requests for responsibility cost center changes submitted OASAM. The RCCs are used as cost centers to identify key elements that pertain to each financial transaction for all DOL agencies. RCCs for the WCF contain “QD” in their account number and each represents a WCF service and activity. DOL developed the Pricing Strategies Pamphlet to provide a description of the WCF services and activities provided, the associated RCC, and the allocation method used to charge costs.

OASAM, in partnership with the OCFO, is responsible for the following:

- Working with the OCFO in conducting financial reviews of WCF operations and determining the programs, functions, and activities to be performed and financed through the WCF.

- Preparing the annual WCF budget submission, apportionments, allotments, allocations, and operating budgets and employment and staffing patterns for WCF service providers.

- Providing instructions and directions to service provider managers in the preparation of WCF budget estimates.

- Consulting with the OCFO on proposed changes in the legislative scope and authority for the WCF.

- Conducting periodic reviews of the RCCs assigned to WCF service organizations to determine if they are appropriate.

All DOL agencies in both the national and regional offices are required to use centralized services provided by the WCF unless the OCFO determines, on the basis of a cost analysis, that certain services may be obtained more economically elsewhere.

During the Department’s budget process, which starts approximately 19 months in advance of the fiscal year, the OCFO and OASAM provide budget estimates of WCF expenses to DOL customer agencies so they can include the costs in their budget requests. The WCF budget estimate is the amount required to finance centralized services. After the enactment of DOL’s appropriation, the WCF estimates can be adjusted based on subsequent assessments by the OCFO and OASAM. Customer agencies advanced funds to the WCF based on quarterly assessments prepared by the OCFO.

The WCF Pricing Strategies Pamphlet, prepared by the OCFO, provide customer agencies descriptions of the WCF services provided by each RCC. The Pricing Strategies Pamphlet is organized into 70 service providers. Potentially, more than one RCC could be associated with a service category. For example, the Office of Human Resources Consulting and Operations service provider has two RCCs. Additionally, the Pricing Strategies Pamphlet identifies the allocation method assigned to each service category.

Customer agencies provide advanced funds to the WCF based on quarterly assessments prepared by the OCFO. The OCFO prepares the assessments based on the budget information provided by OASAM. DOL uses two allocation methods for assigning costs to the customer agencies. The first method traces specific costs to customer agencies based on usage. The second method recovers costs based on employment levels utilizing automated allocation tables in the WCF module. To allocate usage costs, the service provider submits a CRR on a monthly basis to the OCFO to be processed and entered into the WCF module for subsequent allocation. Each service provider's CRR contains activity cost data specific to the customer agency that uses the service. However, service providers do not make available any supporting detail for this report. The OCFO inputs this information into automated spreadsheets and then manually enters the calculated data from these spreadsheets into the WCF module. For allocating the remaining costs the OCFO uses the automated allocation tables in the WCF module. The OCFO maintains these tables using the customer agency employment data provided by OASAM.

Appendix B

Objective, Scope, Methodology, and Criteria

Objective

The audit objective was to answer the following question:

Is the WCF operated according to Federal law, guidelines, and DOL policies?

Scope

The audit covered operations in place at the time our fieldwork, which started in June 2009 and ended in February 2010. No significant policy changes covering the WCF since the end of our field work have occurred as May 2010. We analyzed WCF budget data for all 13 DOL customer agencies for FY 2008 and the overall WCF budget covering FYs 2006 through 2008, reviewed methods to allocate costs for FY 2008 and reviewed expense data from FY 2008. We used FY 2008 because it was the most recent completed fiscal year available at the time we started our audit in June 2009. The review of the expense data consisted of a judgmental sample of 30 non-personnel disbursement documents that service providers included in the WCF cost pools for FY 2008. We identified 44 RCCs that had costs of more than $300,000 for any object class code. The OCFO provided us a list of disbursement documents from the accounting system for the 44 RCCs. The list contained 2,231 disbursement document transactions totaling $78,464,250. We selected 30 disbursement document transactions based on one or more of the following: disbursements of more than $300,000, disbursed in the fourth quarter of FY 2008, disbursements in even amounts, and disbursement that appeared to be adjusting entries. The sample and its results are not representative of the universe of non-personnel costs. We reviewed the 127 WCF services and activities for which costs could be charged in DOL's accounting system for FY 2008. We performed audit work at DOL's National Office in Washington, D.C.

We conducted this audit in accordance with generally accepted government auditing standards for performance audits. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objective.

Methodology

To accomplish the objective we obtained an understanding of the WCF by reviewing documentation and interviewing OCFO and OASAM National Office management and staff responsible for administering the WCF. We also reviewed documentation and conducted interviews with service providers and customer agencies. We conducted an analysis of WCF budget, expense, and collections data. We also interviewed officials who had involvement with the WCF to obtain their perspectives on the WCF operations at the following customer agencies – BLS, the Occupational Safety and Health Administration, ETA, MSHA, ESA and the Employee Benefits Security Administration.

To determine if the WCF operated according to Federal guidelines and DOL policies, we examined whether DOL had a process for determining the appropriateness and advantages for having the services and activities in the WCF; the budget process provided reasonable estimates of costs and anticipated collections; appropriate allocation methods were used to charge WCF costs to customer agencies; and controls were in place to ensure that only non-personnel costs related to the WCF were charged to customer agencies. To determine if all of the WCF services and activities were appropriate and advantageous, we gained an understanding of them by reviewing the WCF Pricing Strategies Pamphlet, dated 2008. DOL used this pamphlet to inform customer agencies about the service for each WCF cost center and the allocation method used to assess costs. We compared the services and activities to the services specified in the authorizing legislation, and for those services and activities not specified, we used auditor judgment as to whether or not they were centralized in nature.

We analyzed cost estimates and actual collections covering FYs 2006 through 2008 to determine if the WCF budget process provided reasonable estimates of costs and anticipated collections. We reviewed the allocation descriptions in the current WCF Pricing Strategies Pamphlet to determine the appropriateness based on the type of costs charged and reviewed the process used to compile and allocate the costs to customer agencies. Finally, to determine if controls were in place for charging costs to the WCF and customer agencies, we reviewed expense data focusing on non-personnel WCF costs for FY 2008, which totaled $105,987,037. The total cost charged to WCF FY 2008 was $171,075,192, which consisted of $65,088,155 of personnel costs and $105,897,037 of non-personnel costs.

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

We evaluated internal controls used by DOL for reasonable assurance that the WCF was administered according to federal and Departmental requirements. Our consideration of DOL's internal controls for administering the WCF would not necessarily disclose all matters that might be reportable conditions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

In planning and performing the audit we relied on computer-generated reports, such as the D338 and a list of disbursements from the OCFO, to identify the universe of costs that service providers charged for FY 2008 to the WCF. We assessed the reliability of the data by performing analytical procedures and comparing to WCF financial statements. We concluded the data was sufficiently reliable to use for our purposes.

Criteria

- PL 85-67, and codified in 29 U.S.C., Section 563, DOL WCF Establishment, Availability, Capitalization, Reimbursement, dated June 29, 1957

- PL 91-204, and codified in 29 U.S.C ,Section 564, DOL WCF Availability for Personnel Functions in Regional Administrative Offices, dated March 5, 1970

- PL103-112, and codified in 29 U.S.C, Section 563a, DOL WCF Comprehensive Program of Centralized Services, dated October 21, 1993

- PL 97-258, and codified in 31 U.S.C, Sections 1535 Agency Agreements and 1536 Crediting Payments From Purchases Between Executive Agencies, both dated September 13, 1982

- OMB Circular A-11, Preparation, Submission, and Execution of the Budget, dated June 2008

- OMB Circular A-123, Management's Responsibility for Internal Control, dated December 21, 2004

- Managerial Cost Accounting Concepts and Standards for the Federal Government, Statement of Federal Financial Accounting Standards Number 4, dated July 31, 1995

- FAR Subpart 31.2, Contracts with Commercial Organizations, dated August 17, 2007

- DLMS 6, Financial Management, Chapter 1200, Working Capital Fund, dated September 4, 2001

- DLMS 6, Financial Management, Chapter 800, Managerial Cost Accounting, dated March 14, 2007

- DLMS 6, Financial Management, Chapter 400, Administrative Control of Funds, March 24, 2008

- DLMS 6, Financial Management Chapter 200: Budget Formulation and Justification, dated January 16, 2009

- DOL Secretary's Order 04-2009, Authority and Responsibilities for Implementation of the CFO Act of 1990 and Related Legislation; Notice, dated January 23, 2009

Appendix C

Acronyms and Abbreviations

ASAM	Assistant Secretary for Administration and Management
BLS	Bureau of Labor Statistics
BOC	Business Operations Center
BPA	Blanket Purchase Agreement
CFO	Chief Financial Officer
CRR	Cost Recovery Report
DOL	U.S. Department of Labor
DLMS	Department of Labor Manual Series
ESA	Employment Standards Administration
ETA	Employment and Training Administration
FAR	Federal Acquisition Regulation
FECA	Federal Employees' Compensation Act
FEMA	Federal Emergency Management Agency
FPB	Frances Perkins Building
FY	Fiscal Year
ITC	Information Technology Center
MSHA	Mine Safety and Health Administration
OASAM	Office of Assistant Secretary for Administration and Management
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OHRCO	Office of Human Resources Consulting and Operations
OIG	DOL Office of Inspector General
OMB	Office of Management and Budget
OPA	Office of Public Affairs
OSEC	Office of the Secretary
PL	Public Law
RCC	Responsibility Center Codes
SF	Standard Form
U.S.C.	United States Code
WCF	Working Capital Fund

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Appendix D

OCFO Response to Draft Report

U.S. Department of Labor Office of the Chief Financial Officer
Washington, D.C. 20210

SEP 23 2010

MEMORANDUM FOR ELLIOTT LEWIS
Assistant Inspector General for Audit

FROM: JAMES L. TAYLOR
Chief Financial Officer

SUBJECT: Working Capital Fund Audit Report

Thank you for allowing us to review the final version of the Working Capital Fund (WCF) report. The Department of Labor's (DOL) management has extensively discussed the Office of Inspector General's findings, and we feel they will be extremely useful in helping us as we map the way forward. As you know, management concurs with virtually all of the report's findings. And, while the Department does not concur with the finding that DOL is not following the Secretary's policy guidance in managing the WCF, we are dedicated to improving the management and transparency of the WCF.

I only request that you note in the report that the Department is currently finalizing a contract for an evaluation of DOL's collection and expenditure of WCF assessments. In addition, management is committed to a thorough review of how the WCF is managed, including mechanisms to improve collaboration with DOL agencies and the WCF Committee.

I would be happy to discuss our comments further if you have any questions.

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Appendix E

Acknowledgements

Key contributors to this report were Michael Hill (Audit Director), Naomi Byberg, Renata Hobbs, and Patrick Trager.

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