U.S. Department of Labor

Office of Inspector General—Office of Audit

REPORT TO THE VETERANS' EMPLOYMENT AND TRAINING SERVICE

JOBS FOR VETERANS STATE GRANTS PROGRAM: VETS NEEDS TO IMPROVE FINANCIAL MONITORING

Date Issued: March 29, 2016
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U.S. Department of Labor
Office of Inspector General
Office of Audit

BRIEFLY…

March 29, 2016

JOBS FOR VETERANS STATE GRANTS PROGRAM: VETS NEEDS TO IMPROVE FINANCIAL MONITORING

WHY OIG CONDUCTED THE AUDIT

The Veterans' Employment and Training Service (VETS) provides employment and training services to eligible veterans through, among other programs, its Jobs for Veterans State Grants (JVSG) program, a noncompetitive grant awarded to each State Workforce Agency (state). Under the JVSG program, funds are allocated to states in direct proportion to the number of veterans seeking employment within that state. VETS' Fiscal Year 2013 budget totaled $258.9 million, of which the JVSG program received $170 million. JVSG funds paid for states to employ Disabled Veteran Outreach Program specialists and Local Veteran Employment Representatives, as well as the reasonable expenses of such employees for training, travel, supplies, and other business costs.

Given that almost two-thirds of VETS' budget is devoted to the JVSG program, it is essential that VETS monitor and supervise the distribution and use of JVSG funds provided to states. Previous OIG JVSG performance audit reports identified issues with VETS' grant monitoring activities.

WHAT OIG DID

We conducted a performance audit to determine the following:

> Did VETS provide reasonable assurance that costs charged to the JVSG program were allowable?

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/2016/06-16-001-02-001.pdf

WHAT OIG FOUND

VETS' controls over managing states' use of JVSG funds need to be strengthened to provide greater assurance that JVSG costs claimed by states are allowable. VETS had controls in place to ensure states properly reported JVSG expenditures, including guidance about recurring JVSG financial reporting requirements, and VETS also monitored obligation authority to ensure states' cash drawdowns were proper and met requirements. However, VETS did not have a control to ensure states claimed only expenses allowable for the JVSG program. Specifically, VETS' policy did not require any review of documentation that supported the states' expenditure totals. VETS' monitoring relied on comparing states' JVSG expenditure totals to their budgeted totals and also on states' certification that reported JVSG expenditures were accurate and allowable. Without reviewing supporting documentation for reported expenditures, VETS lacked assurance that costs charged by states to their JVSG grants were allowable.

WHAT OIG RECOMMENDED

We recommended the Assistant Secretary for Veterans' Employment and Training develop new monitoring guidance on the submission and review of supporting documentation for JVSG expenditures, and make a determination on the allowability of costs questioned in this report.

In response to our draft report, VETS agreed with our recommendations.

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U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

March 29, 2016

INSPECTOR GENERAL'S REPORT

Michael H. Michaud
Assistant Secretary
for Veterans' Employment and Training
200 Constitution Avenue, NW
Washington, DC 20210

The Veterans' Employment and Training Service (VETS) provides employment and training services to eligible veterans through its Jobs for Veterans State Grants (JVSG) program. Under the JVSG program, VETS awards a noncompetitive grant to each State Workforce Agency (state). Funds are allocated to states in direct proportion to the number of veterans seeking employment within their state. VETS' Fiscal Year 2013 budget totaled $258.9 million, of which the JVSG program received $170 million.

The JVSG program supports two principal positions, Disabled Veteran Outreach Program (DVOP) specialists and Local Veteran Employment Representatives (LVER). DVOP specialists provide intensive services to meet the employment needs of disabled veterans and other eligible veterans, with emphasis directed toward serving those who are economically or educationally disadvantaged, including homeless veterans and veterans with barriers to employment. LVERs conduct outreach to employers and engage in advocacy efforts with hiring executives to increase employment opportunities for veterans, encourage the hiring of disabled veterans, and generally assist veterans to gain and retain employment.

We conducted an audit to determine the following:

> Did VETS provide reasonable assurance that costs charged to the JVSG program were allowable?

RESULTS IN BRIEF

VETS' controls over states' use of JVSG funds need to be strengthened to provide greater assurance that JVSG costs claimed by states are allowable. VETS had controls in place to ensure states submitted required financial reports, including guidance about recurring reporting requirements. VETS also had controls in place and operating over states obligational authority. However, VETS did not have a control to ensure states claimed allowable expenses for the JVSG program. VETS did not review the supporting expenditure documentation that comprised states' expenditure totals. As a result, VETS was unaware that the two states we reviewed had questioned costs of $60,375 (7 percent of tested expenditures), as well as payroll reporting issues, such as hours recorded on employee timesheets that did not equal the payroll expense hours recorded.

BACKGROUND

According to 38 U.S.C. § 4102 A(b)(6), VETS was required to monitor and supervise, on a continuing basis, the distribution and use of all JVSG funds provided to states. The JVSG funds are to be paid for DVOP specialists, LVERs, and reasonable expenses of such specialists and representatives, for training, travel, supplies, and other business expenses, including travel expenses and per diem for attendance at the National Veterans' Employment and Training Services Institute. In addition, Veterans' Programs Letter (VPL) 05-05 provided guidance to states and federal Directors for Veterans' Employment and Training (DVET) regarding monitoring and analyzing states' direct and indirect charges. VETS monitored JVSG costs claimed by states to ensure funds were spent in accordance with cost principles established for federal awards, as well as approved State Plans.

RESULTS

VETS lacked a control to review the supporting JVSG expenditure documentation that comprised the states' expenditure totals. VETS' monitoring relied on comparing states' JVSG expenditure totals to their budgeted totals and also on states' certification that reported JVSG expenditures were accurate and allowable. VETS' policies did not require DVETs to select and review supporting documentation for the specific JVSG costs that comprised the summary totals on the quarterly and final reports states submitted to VETS. As a result, VETS was unaware the two states we reviewed had charged unallowable or unsupported expenses to their JVSG grants. Of the $4 million in JVSG expenditures Oklahoma and Louisiana claimed, our review of a judgmental sample of $842,096 in expenditures identified $60,375 (7 percent) in questionable charges, as well as other reporting issues.

VETS' JVSG FINANCIAL MONITORING POLICY DID NOT REQUIRE REVIEW OF JVSG EXPENDITURE SUPPORTING DOCUMENTATION

VETS' JVSG policy did not require DVETs to select and review supporting documentation for the specific costs that made up the summary totals reported on the states' quarterly and yearly JVSG financial reports. VETS required states to certify the financial reports they submitted, and required DVETs to compare summary totals with the budgeted amount in the states' plans to ensure the totals appeared reasonable. VETS' policy did not require DVETs to review states' supporting documentation for costs charged to the JVSG program, even though the program made up 66 percent of VETS' funding. As the results of our testing in Oklahoma and Louisiana demonstrate, without reviewing supporting documentation, VETS lacks assurance that costs charged by states to their JVSG grants are allowable.

VETS MONITORING OF STATES' JVSG EXPENDITURES RELIED ON COMPARING STATES' CERTIFIED REPORTED TOTALS WITH BUDGETED TOTALS

In order to fulfill its requirements, VETS issued Director's Memorandum 01-10, JVSG Recurring Report Guidance, which contained the JVSG reporting guidance to be used by DVETs and Regional Administrators to ensure state reports were submitted in a timely manner and all report forms and narratives were complete and accurate. The Director's Memorandum outlined the DVETs' monitoring methodology to be used to meet the JVSG fiscal (financial) reporting responsibilities. VETS' VPL 01-10 required states to submit financial reports for each quarter JVSG funds were expended. Each state submitted quarterly and a final VETS-402 Expenditure Detail Report (Expenditure Detail Report) and SF-425 Federal Financial Report (Federal Financial Report).

The Expenditure Detail Reports contained the cumulative amount of JVSG funds allocated through the end of the period being reported for the DVOP specialists and LVERs. It contained breakdowns of the DVOP and LVER expenditure totals for the quarter and year-to-date amount, and summary information for the DVOP and LVER unobligated balances. The Federal Financial Reports contained the quarterly and cumulative amounts of DVOP and LVER cash receipts and disbursements, federal expenditures, and unobligated balances through the end of the reporting period. The states submitted separate reports for the DVOP specialists and LVERs.

Each state certified their reports' accuracy and compliance with guidelines on allowable costs and applicable expenditure policies and regulations. The states entered the Federal Financial Report information into E-Grants and emailed the Expenditure Detail Reports to their respective DVET for review and approval.

For their respective state, the DVET first reviewed the Expenditure Detail Report's summary reported transactions and compared it to the Federal Financial Report's totals, then reviewed the cumulative quarterly allocation amounts from both reports to make sure they were equal. Then the DVET compared the planned expenditures from the budget information summary to both reports' cumulative outlays and obligations totals to determine any discrepancies.

The DVET then reviewed the Expenditure Detail Report's DVOP and LVER reported expenditure totals to determine if the state's primary funding was used for salaries and fringe benefits. The DVET ensured the year-to-date DVOP and LVER salaries and benefits to total ratios were within 2 percent of the approved budget information summary ratio totals. If the DVET identified deviations with the ratios greater than 2 percent, the state should have provided an explanation for the deviation.

After comparing the financial reports totals, DVETs accepted the Federal Financial Report's data in E-Grants. Then the DVETs certified the accuracy of the Expenditure Detail Report and uploaded it into the VETS Operations and Programs Activity Report system. If applicable, DVETs also reviewed grant modification requests to ensure the use and amount of funds requested were allocable and reasonable.

After the DVET verified the financial reports, the DVET forwarded the reviewed reports to the Regional Administrator. The Regional Administrator then reviewed their state's quarterly and final reports for completeness and accuracy. Based on this review, the Regional Administrator should have notified the DVET and recommended approval or disapproval of those records. If approved, the DVET notified the state to submit the original, signed copy of the quarterly reports.

For its competitive grant program, which comprised about 14 percent of VETS' total funding, VETS required DVETs to review expenditure-supporting documentation. The JVSG program made up 66 percent of VETS' funding, but VETS did not review states' supporting documentation to ensure states charged allowable costs to the program.

QUESTIONED COSTS AND REPORTING ISSUES FOR THE STATES OF OKLAHOMA AND LOUISIANA

For a judgmental selection of JVSG expenditures in Oklahoma and Louisiana, we found $60,375 in questioned costs and reporting issues. In Oklahoma, we identified purchases lacking adequate documentation and overcharges to the grant. Louisiana had multiple issues with timekeeping, such as straight time and leave hours from timesheets not matching the payroll expense hours recorded in the general ledger.

NON-PAYROLL ISSUES IN OKLAHOMA

Oklahoma claimed expenditures, totaling $38,985, that lacked supporting documentation to show how JVSG benefited from the purchase and why JVSG funds should pay for the expenditures. Oklahoma also overcharged $20,796 to the JVSG grant for purchases.

Oklahoma's JVSG capital expenditures and supplies lacked supporting documentation for allocating costs to the JVSG program; specifically, documentation demonstrating how the expenditures assisted the DVOP specialists and LVERs to perform their duties. We found issues with all 7 capital expenditure costs and 3 of 5 supply costs we reviewed. Table 1 lists the amounts and reasons the costs were unsupported.

Table 1: JVSG expenditures lacking support documentation

Transaction Type	Number of Transactions	Amount	Reason
Capital Expenditures	4	$17,362	The supporting documentation lacked information to determine why JVSG funds were used to pay for the Job Center's purchases.
Capital Expenditures	3	$5,922	The invoices lacked information to determine what was purchased and how it benefited the JVSG program.
Supply	1	$4,179	Supporting documentation did not show the items built for the LVER program and how they benefited the LVER program.
Supply	2	$11,522	LVER incentive award funds were used, but the purchases supplanted expenses that ordinarily would be paid at the state or program level.
Totals	**10**	**$38,985**	

OMB Circular A-87, Attachment A, Paragraph C, 3.a, states a cost is allocable to a certain cost objective in accordance with benefits received. OMB Circular A-87 Attachment A, Paragraph C, 1.a, states the costs must be necessary and reasonable for proper and efficient performance and administration. Additionally, Attachment A, Paragraph C, 1.j, states costs must be adequately documented to be allowable.

Oklahoma overcharged the JVSG grant $20,796 on 5 purchases. Oklahoma either charged the grant the full invoice, when it should have been charged a percentage of the total, or charged the grant in error. Table 2 lists the overcharge amounts.

Table 2: JVSG Overcharges

Transaction Type	Invoice Total Charged to JVSG	Correct Amount for JVSG	JVSG Overpayment
Equipment	$3,057	$428	$2,629
Equipment	$10,588	$2,118	$8,470
Equipment	$1,124	$245	$879
Supply	$3,708	$1,036	$2,672
Supply	$14,201	$8,055	$6,146
Total	**$32,678**	**$11,882**	**$20,796**

For the 3 equipment purchases, the state charged an entire invoice amount to the JVSG grant, when it should have charged the JVSG program a percentage. For the 2 supply purchases, Oklahoma told us it was an accounting error that caused the overcharge.

OMB Circular A-87, Attachment A, Paragraph C, 1.b, says to be allowable, the costs must be allocable under the provisions of the Circular. According to OMB Circular A-87, Attachment A, Paragraph C, 3.a, a cost is allocable to a certain cost objective in accordance with benefits received. The equipment and supplies purchased were not used solely by the JVSG program; therefore, the costs should have been shared with other programs at the job center.

PAYROLL ISSUES IN LOUISIANA

Louisiana's JVSG payroll costs had numerous reporting issues and cases where the grant was overcharged payroll costs. We selected and reviewed the payroll charges for 7 of 17 DVOPs and LVERs employed by the state during the audit period (October 1, 2012, through December 31, 2013) and found four timesheets on which the hours recorded did not equal the payroll expense hours recorded in the general ledger.

- There were four timesheets where total hours did not equal payroll expense hours charged in the general ledger and the employee was paid 80 hours, even if they worked more or less time. Table 3 lists the difference in hours and incorrect amounts charged to the grant.

Table 3: Timesheet hours not equaling payroll expense hours in General Ledger

Payroll Issue	Total Hours Timesheet	Total Hours G/L	Difference in Hours	Over/Under Charge to Grant
1	62.5	80	**17.5**	$594.30
2	86	80	**6**	($139.05)
3	84.5	80	**4.5**	($104.29)
4	84	80	**4**	($92.70)

For the first issue, an employee was paid for 80 hours when they worked less, and the $594 in payroll costs for the additional hours was unallowable. OMB Circular

A-87, Attachment A, Paragraph C, 3.a, states a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. The JVSG grant did not receive benefits for any payroll charged over the hours the employee worked.

For the 3 cases where the employee was only paid for 80 hours, while the timesheet showed more hours worked, the additional hours worked should have been charged to the JVSG program. While there may be such grant costs that offset costs found to be unallowable, at a minimum VETS should be reviewing a sample of supporting documentation to have assurance that costs charged to the JVSG grant are allowable.

OMB Circular Attachment A, Paragraph A, 2.a(1), states governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices. Louisiana was not following sound management practices when it did not ensure the source document (timesheet) equaled the general ledger (amount paid) amount.

- Of the 231 pay periods reviewed, there were 31 timesheets (13 percent) where the hours worked and leave hours did not match the payroll expense categories charged in the general ledger. Of the 7 employees tested, 5 had issues. Table 4 lists the examples.

Table 4: Timesheet work and leave hours not equal to payroll expense hours in General Ledger

Employee	No. of times timesheet and G/L did not equal	Example of hours not matching
1	5	Timesheet had 72 work hours and 8 leave hours. The G/L had 32 hours worked and 48 leave hours.
4	3	Timesheet had 72 work hours and 8 hours of leave. G/L had 80 hours worked and 0 leave.
5	12	Timesheet had 59.25 work hours and 20.75 hours of leave. The G/L had 74.75 work hours and 5.25 leave hours.
6	4	Timesheet had 70 work hours and 10 leave hours. The G/L had 34 work hours and 46 hours of leave.
7	7	Timesheet had 56 work hours and 24 leave hours. The G/L had 64 work hours and 16 leave hours.

Louisiana was not following sound management practices, as required by OMB Circular Attachment A, Paragraph A, 2.a(1), for the efficient and effective administration of federal awards. Louisiana's timekeepers entered the hours worked into the general ledger, but there appeared to be no control to ensure timekeepers were entering the correct hours worked on the timesheet into the general ledger. As a result, Louisiana was misstating hours worked and could have been misstating total JVSG hours worked on the program and overcharging the grant.

OIG RECOMMENDATIONS

We recommend the Assistant Secretary for Veterans' Employment and Training:

1. Develop new monitoring guidance that requires states to submit and DVETs to review a detailed listing of JVSG expenditures and using a risk-based approach, review supporting documentation for a sample of JVSG expenditures to ensure states are charging allowable costs to the program.

2. Review a sample of Louisiana JVSG employee payroll transactions to ensure Louisiana is correctly recording and charging staff salary costs to the grant and require Louisiana to return to VETS the $594 in questioned salary costs.

3. Review a sample of Oklahoma JVSG non-payroll transactions to ensure Oklahoma charged allowable costs to the grant and require Oklahoma to: (a) return to VETS the $20,796 in questioned JVSG costs; (b) provide support showing how the JVSG grant benefited from the $38,985 in unsupported costs and, if they cannot, return unsupported costs to VETS; (c) adjust the quarterly and final JVSG totals, based on the costs disallowed, and prepare amended financial reports.

AGENCY RESPONSE

The Assistant Secretary for Veterans' Training and Employment agreed with the recommendations and stated that updating the monitoring guidance would benefit the program. The Assistant Secretary also stated VETS will work with the Employment Training Administration's Office of Grant Management to review payroll and non-payroll records for the Oklahoma and Louisiana questioned costs. Management's response to our draft report is included in its entirety in Appendix B.

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

Elliot P. Lewis

Elliot P. Lewis
Assistant Inspector General
for Audit

Appendices

Appendix A

OBJECTIVE, SCOPE, METHODOLOGY, AND CRITERIA

OBJECTIVE

We performed this audit to answer the following question:

Did VETS provide reasonable assurance that costs charged to the JVSG program were allowable?

SCOPE

Our work covered the period October 1, 2012, through December 31, 2013. JVSG financial records were tested at the states of Louisiana (Baton Rouge) and Oklahoma (Oklahoma City).

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

METHODOLOGY

To accomplish our audit objective, we interviewed VETS officials and staff to determine JVSG financial reporting controls over states reporting program expenditures, monitoring JVSG obligation authority, states retaining support documentation, and states recording JVSG costs. Also, we reviewed applicable laws, OMB Circulars, and VETS policies and guidance relative to JVSG financial activity. We considered the internal elements of control environment, risk assessment, control activities, information and communication, and monitoring during our planning and substantive audit phases and evaluated relevant controls.

We judgmentally selected the states of Louisiana and Oklahoma to review VETS managing of states' use of JVSG program funds, and conducted fieldwork at the Louisiana state office in Baton Rouge, and Oklahoma state office in Oklahoma City. We interviewed each state's DVET and state officials to gain an understanding of their respective roles and responsibilities related to the JVSG financial reporting requirements, including states reporting of program expenditures, state drawdowns, and states recording only allowable JVSG costs.

We reviewed DVET records to determine if the DVET had adequate control over their state's reporting JVSG program expenditures, drawdowns, and recording of JVSG costs. This included DVET monitoring of the financial activity of the JVSG program. We traced reported JVSG expenditures and cash drawdowns to state accounting records. Additionally, we conducted a walkthrough of how each state recorded and monitored JVSG program expenditures.

We selected a non-statistical, judgmental sample of JVSG payroll and non-payroll expenditures for each state. We tested these expenditures to determine whether they were supported by documentation and were allowable and/or allocable costs for the JVSG program.

CRITERIA

- 38 U.S.C Chapter 41, *Job Counseling, Training, and Placement Service for Veterans*
- OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*
- VETS' Director's Memorandum 01-10, *Jobs for Veterans State Grant Recurring Report Guidance*
- Veterans' Program Letter No. 01-10, *Jobs for Veterans State Grants Recurring Report Requirements*
- Veterans' Program Letter No. 02-07, *Annual Performance Incentive Awards for State Employees and Employment Service Offices*
- VETS' Director's Memorandum 05-14, *Competitive Grants Quarterly Reporting Guidance*
- Veterans' Program Letter No. 05-05, *Direct and Indirect Charges to the Fiscal Year 2005-2009 Jobs for Veterans State Grants*

Appendix B

VETS' RESPONSE TO DRAFT REPORT

U.S. Department of Labor

Assistant Secretary for
Veterans' Employment and Training
Washington, D.C. 20210

MAR 2 4 2016

MEMORANDUM FOR: ELLIOT P. LEWIS
Assistant Inspector General for Audit

FROM: MICHAEL H. MICHAUD

SUBJECT: Response to the Office of Inspector General (OIG) Audit Report titled, *VETS Jobs for Veterans State Grant (JVSG) Financial Reporting.*

Thank you for the opportunity to comment on the draft report *VETS Jobs for Veterans State Grant (JVSG) Financial Reporting.* The report contained the following recommendations:

1. *Develop new monitoring guidance that requires states submit and DVETs review a detailed listing of JVSG expenditures and using a risk-based approach, review supporting documentation for a sample of JVSG expenditures to ensure states are charging allowable costs to the program.*
2. *Review a sample of Louisiana JVSG employee payroll transactions to ensure Louisiana is correctly recording and charging staff salary costs to the grant and require Louisiana to return to VETS the $594 in unallowable salary costs.*
3. *Review a sample of Oklahoma non-payroll transactions to ensure Oklahoma charged allowable costs to the grant and require Oklahoma to: a) return to VETS the $20,796 in question JVSG costs; (b) provide support showing how the JVSG grant benefitted from the $38,985 in unsupported costs and; if they cannot, return unsupported costs to VETS; and (c) adjust the quarterly and final JVSG totals, based on the costs disallowed, and prepare amended financial reports.*

With regard to Recommendation One, VETS agrees that updated monitoring guidance reflecting a risk-based approach to JVSG expenditures would benefit the program.

With regard to Recommendations Two and Three, VETS utilizes the ETA Office of Grants Management (OGM) for the processing of all grants, including managing the audit resolution process. Upon release of this audit, VETS will work with OGM to review payroll and non-payroll records in connection to the questioned costs with the states of Louisiana and Oklahoma. The audit resolution process, outlined in 2 CFR 2900.20, ordinarily takes 180 days to complete.

VETS/OGM will make final determinations regarding further actions upon completion of that process and will forward that information to your office.

Thank you for providing us an opportunity to respond. Should you have additional questions, please feel free to contact Gordon Burke in the Veterans' Employment and Training Service at (202) 693-4700.

Respectfully,

Mike

Michael H. Michaud
Assistant Secretary

Appendix C

ACKNOWLEDGEMENTS

Key contributors to this report were: Michael Kostrzewa, Dorothy Dorsey, Enrique Lozano, Marsha Secuskie, and Barry Winnicki.

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