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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Weak Internal Controls Make The Department Of Labor And Selected CETA Grantees Vulnerable To Fraud, Waste, And Abuse



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In fiscal 1980, the Department of Labor spent about \$8 billion in Federal funds for CETA programs which provide employment opportunities and job training for economically disadvantaged, unemployed, and underemployed persons. GAO found weaknesses in internal controls at Labor headquarters, four regional offices, and nine CETA grantees resulting in intentional abuse and nonintentional misuse of Federal funds.

Labor has taken actions that should increase its control over the way CETA grantees use Federal funds. However, further improvements are needed to sufficiently reduce the vulnerability of Labor's operations, including CETA, to fraud and abuse. This report recommends that the Secretary of Labor take several steps to achieve strong internal controls.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

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To the President of the Senate and
the Speaker of the House of Representatives

CWD 00001

This report summarizes the results of our review of the vulnerability of the Department of Labor and selected CETA grantees to fraud, waste, and abuse. It describes weaknesses in fiscal and managerial controls over program and administrative activities at Labor headquarters, four regional offices, and nine CETA grantees and identifies how these weaknesses have led to or can lead to abuses and misuses of Federal funds and assets. The report makes recommendations to the Secretary of Labor for correcting these weaknesses.

This is one in a series of reports we will issue on the vulnerability of selected Federal agencies and programs to fraud and abuse. The review was undertaken by our Fraud Prevention Task Force which was established to respond to growing public concern over abuse and misuse of taxpayer money.

Copies of this report are being sent to the Director of the Office of Management and Budget and to the Secretary of Labor.

Milton J. Fowler

Acting Comptroller General
of the United States

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D I G E S T

GAO made this study to determine (1) whether the Department of Labor had a system of internal controls to adequately protect against fraud, waste, and abuse and (2) how grantees of Labor's Comprehensive Employment and Training Act (CETA) Program protect against improper use of Federal funds and assets. GAO found weaknesses in controls at both Labor and its CETA grantees.

Internal controls are checks and balances adopted by an agency to safeguard its assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed management policies. These checks can detect errors and make fraud and related illegal acts more difficult. Each Federal agency is required by the Budget and Accounting Procedures Act of 1950 to maintain adequate systems of internal control.

About 470 prime sponsors, 50,000 subgrantees, and 500 national grantees participate in CETA. From 1973 to October 1978, \$24 billion in Federal funds was spent on the CETA program. In total, the activities GAO evaluated (four Labor regional offices, four prime sponsors, four subgrantees, and one national grantee) received fiscal 1979 funds of \$89.4 million.

HEADQUARTERS AND REGIONAL OFFICES
NEED BETTER INTERNAL CONTROLS

Internal controls over disbursements, receipts, and property management at Department of Labor headquarters and four regional offices are not adequate to protect Federal funds and assets. In some cases, Labor had established internal controls but these were not effectively implemented. The result is fraud and abuse of

Federal funds at Labor headquarters, some regional offices, and at selected CETA grantees. Specific weaknesses noted included:

- Failure to promptly identify and collect Federal funds in the form of (1) unused grant money, (2) grantee expenditures questioned during audits, and (3) overpayments to vendors. (See pp. 8 and 9.)
- Duplicate payments of \$198,000 caused by inadequate reviews of vendor invoices. (See p. 12.)
- Inadequate controls over procurement practices, resulting in a \$100,000 extension to a 12-month, sole-source contract for \$99,985 to a firm whose performance under the contract was questionable. (See p. 13.)
- Inadequate review of employee travel advances, resulting in (1) excessive advances and (2) over 200 headquarters employees leaving the agency owing \$77,000. (See pp. 13 and 14.)
- Insufficient review of supplemental payroll, which allowed one Labor employee to fraudulently obtain \$13,000 over 18 pay periods. (See pp. 15 and 16.)
- Inadequate internal controls over inventory, which allowed equipment to be misplaced. (See pp. 17 and 18.)
- Severe shortfalls in CETA audit coverage, resolution of audit findings, and audit staff, which resulted in the failure to audit many grantees as required and to collect funds from grantees with disallowed costs. (See pp. 36-42.)

GRANTEE ORGANIZATIONS NEED
BETTER MONITORING AND
STRONGER INTERNAL CONTROLS

Labor officials have not sufficiently monitored CETA grantee programs and activities, especially in terms of (1) verifying internal controls, (2) ensuring that required audits are performed, and (3) ensuring that funds disbursed to grantees were spent in accordance with CETA legislation. (See p. 22.)

GAO visited four prime sponsors, four subgrantees, and one national program grantee which received fiscal 1979 CETA funds totaling about \$89.4 million and found that:

- All four prime sponsors were not reviewing subgrantee requests for cash or subgrantee cash balances and, as a result, all four subgrantees reviewed kept excessive amounts of CETA money. (See pp. 26 and 27.)
- CETA participants' time and attendance reports were often not reviewed by supervisors or payroll personnel at two prime sponsors and three subgrantees. (See p. 28.)
- One subgrantee used CETA funds to make inappropriate purchases of over \$25,000. (See p. 29.)
- Two prime sponsors and three subgrantees did not sufficiently verify CETA participant eligibility data provided on CETA enrollment applications. (See p. 30.)

Many similar deficiencies have been identified and previously reported by GAO--reflecting the longstanding problem Labor has had in these areas. (See app. II.)

LABOR ACTIONS TO IMPROVE INTERNAL CONTROLS

Labor has initiated several efforts intended to improve its internal controls and visibility over grantee activities. It has:

- Begun to redefine the responsibilities of Federal representatives and provide training to emphasize grantee monitoring. (See p. 23.)
- Established regional training centers to assist prime sponsors in operating effective programs. (See p. 23.)
- Conducted unified audits of prime sponsors and subgrantees and established audit residencies in 17 of the more complex CETA prime sponsors to increase audit coverage. (See p. 23.)
- Developed a comprehensive audit resolution and debt collection program which will measure

employee performance in meeting the program's standards. (See p. 39.)

- Begun weekly monitoring of Labor employee travel advances. (See p. 14.)
- Issued grantees specific guidance regarding the minimum verification required to ensure participant eligibility. (See p. 30.)

CONCLUSIONS AND RECOMMENDATIONS

At the time of GAO's review, Labor headquarters, regional offices, and grantees lacked sufficient internal controls to adequately safeguard CETA funds. Subsequent actions by Labor, when fully implemented, should improve controls over receipts and disbursements. Although these actions should result in a more effective CETA program, further improvements are still needed. To assist Labor in strengthening its internal controls, the Secretary of Labor should require:

- Headquarters, regional office staff, and prime sponsors to aggressively enforce existing requirements that cash collections be safeguarded, recorded, and promptly deposited upon receipt. (See p. 18.)
- Regional offices to establish and/or effectively implement controls over separation of duties for those employees handling CETA cash receipts from prime sponsors. (See p. 18.)
- Labor headquarters, regional offices, and all grantees to thoroughly review vendor invoices, comparing them with supporting documentation to determine whether they are still outstanding. (See p. 19.)
- The Department's payment services group to review disbursements to vendors who have previously received duplicate payments to determine whether more have been made and, if so, take steps immediately to collect these duplicate payments. (See p. 19.)
- The Inspector General's office to examine the automated procurement system after it is fully operational to determine whether controls built into the system are adequate to protect against payment of duplicate invoices. (See p. 19.)

--The Department to seek competitive bids on proposed procurements and to evaluate the results of a contractor's ongoing performance before granting additional funding. (See p. 19.)

Additional recommendations are shown on pages 34 and 41.

GAO also believes that internal controls can be made more effective by strengthening existing law. The Congress is considering two pieces of legislation, which would require greater accountability by heads of Federal agencies for the effectiveness of their organizations' systems of internal financial control.

The Financial Integrity Act of 1981 (H.R. 350, 97th Cong.) would require agency heads to undertake annual evaluations of their organizations' internal control systems and report the results to the Congress and the President. The Federal Managers' Accountability Act of 1981 (H.R. 1526, 97th Cong.) would require (1) ongoing evaluations and reports on the adequacy of the systems of control of each executive agency and (2) each agency head to include, with the request for appropriations, a statement certifying that the request is based upon an accounting system that has been approved by the Comptroller General.

GAO would participate in this process by providing guidance for conducting the examinations and by reviewing the results. GAO believes this legislation would contribute to the development of adequate internal control systems in the CETA program. GAO's experience is that internal control systems require a commitment from top management and consistent vigilance to be effective. Therefore, GAO supports legislation of this nature and believes it will definitely help bring about such commitment and vigilance.

AGENCY COMMENTS AND GAO'S EVALUATION

The Department of Labor concurred with 15 of the 16 recommendations made in this report and concurred in part with the remaining recommendation. Other comments regarding the factual contents of the report have been considered and changes have been made to the body of the report where necessary. The Department's comments are provided in appendix IV.

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ABBREVIATIONS

CETA	Comprehensive Employment and Training Act
CPA	certified public accounting
ETA	Employment and Training Administration
GAO	General Accounting Office

GLOSSARY

- Prime sponsor (recipient) A State or local government, a federally recognized Indian tribal government, an Indian or Native American entity other than a federally recognized Indian tribal government, or other quasi-public or private for profit or nonprofit organization that receives CETA financial assistance directly from the Department of Labor through a grant to perform substantive work under the act (for example, employment training or supportive services).
- Subgrantee Any person, organization, or other entity receiving financial assistance under CETA through a prime sponsor to carry out substantive work (for example, employment training or supportive services).
- Grantee The term used in this report to mean either a prime sponsor or a subgrantee.
- Office of National Programs The Department of Labor office that is responsible for employment and training programs which, by law or reason, must be administered directly from the Employment and Training Administration's headquarters in Washington, D.C. These programs include the (1) employment and training programs for Indians and other native Americans, (2) employment and training programs for migrant and seasonal farmworkers, and (3) the senior community service employment program.

CHAPTER 1

INTRODUCTION

This is one of a series of reports we will issue on the vulnerability of selected Federal agencies to fraud, waste, and abuse. This report represents the results of our vulnerability assessment of the Department of Labor and of nine grantees participating in its Comprehensive Employment and Training Act (CETA) program.

DESCRIPTION OF VULNERABILITY ASSESSMENTS

Vulnerability assessments are designed to show the susceptibility of Government agency programs to fraud and other illegal acts by evaluating the adequacy of agency internal controls. A discussion of how these assessments are conducted is shown on pages 3, 5, and 6. In a broad sense, internal controls include all methods adopted by an agency to safeguard its assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed management policies. Management controls are the procedures used by operating groups, rather than financial and accounting groups, that are concerned with the decision processes leading to management's authorization of transactions. Internal and management controls are not necessarily mutually exclusive because the procedures and records used for management control may also be necessary for internal accounting control.

A good system of internal control can discourage and minimize fraud, waste, and abuse because of two important features--(1) the separation of duties within the system and (2) procedures which govern the authorization, preparation, review, and flow of all transactions through the system. Thus, to succeed in abusing Federal programs or in defrauding an organization having sound internal controls, it is usually necessary for an individual to have the help of others.

Supervisors must play an active role in reviewing operations to ensure that controls are in place and working properly. They cannot rely only on auditors to detect weaknesses or abuses of control systems because audits normally deal with a small portion of transactions that have already transpired.

Because of the importance of good financial management systems that rely heavily on good internal controls, we have issued several publications on this subject. One of the most important is our Policy and Procedures Manual for Guidance of Federal Agencies. This manual contains accounting principles and standards prescribed by the Comptroller General; principles and standards relating to the development, installation, and operation of that part of the agencies' financial management systems concerning fiscal operations; and guidelines and principles for agencies' internal

auditing efforts. Several other documents concerning the necessity for a good financial management system have been issued to the heads of departments and agencies. Inherent in these publications is the concept that financial management systems are only as good as the internal controls that govern actions and information affecting the systems.

Recognizing the need for strong internal controls over Government operations, the Congress enacted the Budget and Accounting Procedures Act of 1950 which, among other things, placed the responsibility for establishing and maintaining adequate systems of accounting and internal control upon the head of each executive agency. More recently, the Congress passed legislation establishing Inspectors General in many executive departments and agencies.

THE CETA PROGRAM AND HOW IT OPERATES

The Department of Labor's overall purpose is to foster, promote, and develop the welfare of wage earners, to improve their working conditions, and to advance their opportunities for profitable employment. Labor has over 20,000 employees located in Washington, D.C., and in 10 regional offices located in major cities throughout the United States. For fiscal 1980, Labor received appropriations of approximately \$27.9 billion.

One of the most important programs that Labor sponsors is the CETA program, established by legislation in December 1973. CETA programs provide job training and employment opportunities for economically disadvantaged, unemployed, and underemployed persons to maximize our Nation's employment opportunities and enhance self-sufficiency. From 1973 to October 1978, \$24 billion in Federal funds was spent on the CETA program. The fiscal 1980 budget for CETA was \$8.1 billion.

Labor's Employment and Training Administration (ETA) oversees the program. ETA has more than 3,000 employees with about 1,250 positions authorized nationwide for directly managing CETA performance. A Labor official told us about 13 percent of the authorized positions are vacant. To accomplish CETA objectives, ETA provides Federal grants to State and local governments for designing, managing, and sometimes carrying out local employment and training programs. States, cities, and counties having at least 100,000 population are independently eligible for CETA grants. These grant recipients, known as prime sponsors, will number over 470 in fiscal 1981. Smaller localities are served by the State government or by a consortium of local prime sponsors who band together for needed programs. Most prime sponsors divide their Federal grants into subgrants, which are then disbursed to public and private organizations referred to as subgrantees. Subgrantees provide most CETA training and employment. An estimated 50,000 or more subgrantees and 500 national grantees are participating in the CETA program.

Although the prime sponsors and subgrantees are responsible for managing their programs efficiently and effectively, Labor is responsible for reviewing and evaluating their performance. Performance monitoring is accomplished primarily in three ways. Labor program officials periodically visit grantees to evaluate ongoing operations and to provide necessary technical assistance. Secondly, these officials make annual grantee performance assessments using periodic reports from grantees. Finally, Labor auditors, State auditors, or public accounting firms conduct periodic financial and compliance audits of grantee operations. Audit reports prepared by non-Labor auditors are reviewed by Labor to determine whether (1) the audits were properly performed and (2) grantee operations were being carried out sufficiently.

The chart on the next page illustrates how the CETA program operates.

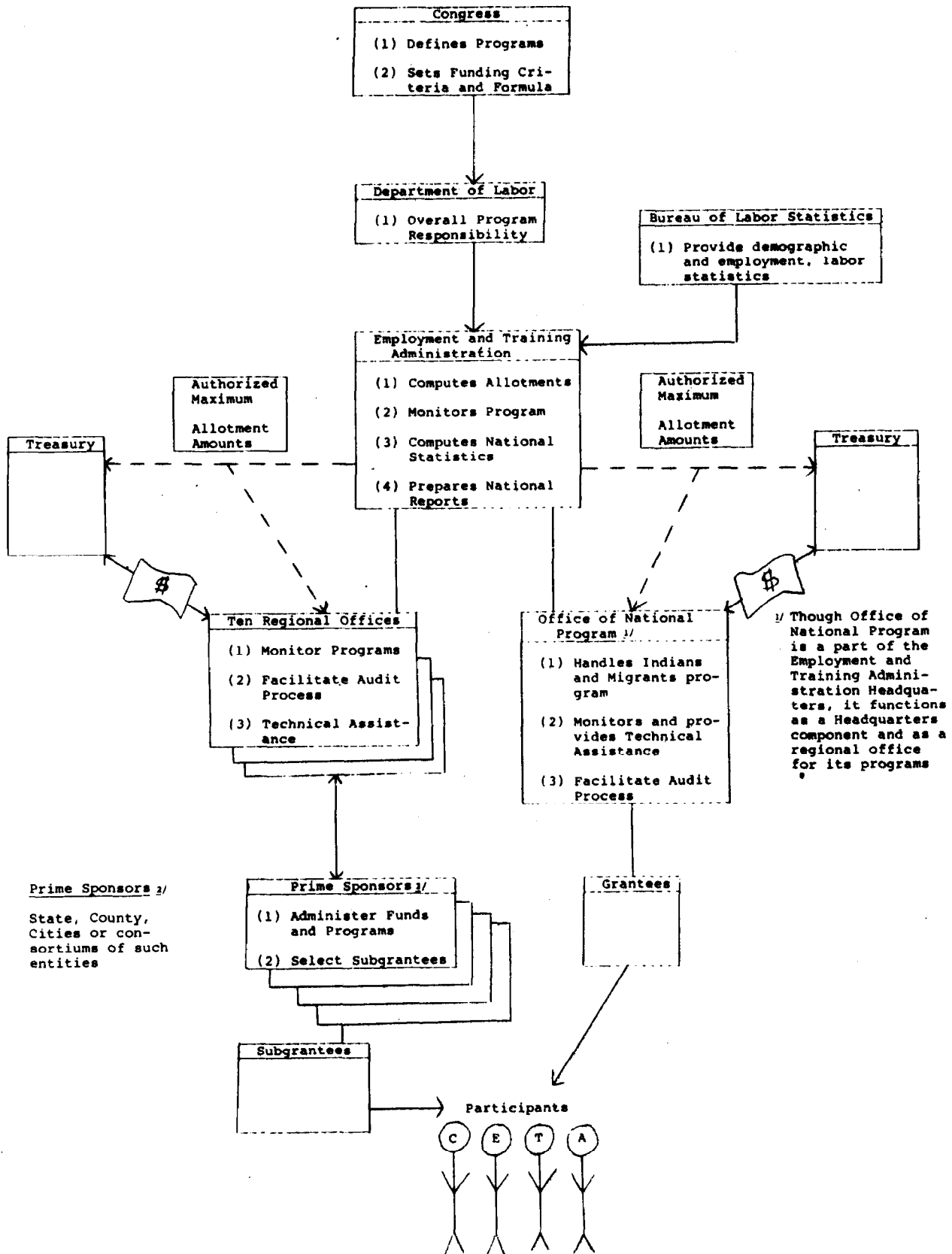
OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective was to determine the extent of the CETA program's vulnerability to fraud, waste, and abuse by evaluating the adequacy of internal and management controls exercised by Labor over its administrative activities and over CETA program activities per se. More specifically, we set out to identify internal accounting and/or management control weaknesses which, if corrected, would result in greater assurance that Federal funds and assets are protected from fraud and abuse. The approach used in conducting vulnerability assessments requires a broad examination of an agency's operations, using an internal control checklist, and the testing of a limited number of transactions.

As part of our vulnerability assessment of the CETA program, we evaluated certain Labor administrative functions, such as payroll, travel, and property management, which support the program (see ch. 2). In some instances, our review of these functions extended beyond the confines of the CETA program and some of the examples of weaknesses found in these administrative areas do not directly relate to CETA.

Our audit work was conducted from May through October 1979. Work was performed at Labor headquarters including ETA; at Labor's Boston, Chicago, San Francisco, and Seattle regional offices; and at four prime sponsors and four subgrantees (one in each region). We also visited one grantee funded and administered directly by ETA's Office of National Programs at ETA headquarters. The activities were selected on a judgmental basis. Factors considered in selecting the grantees included the amount of CETA funds they received and whether they had been audited prior to our review. Our intent was to examine grantees having a large amount of CETA funds but to exclude those that had recently been audited. A major factor in selecting Labor's regional offices was the availability of our own regional staff to perform the work. The scope of our

CETA Program Administration Organization Chart



review was necessarily limited because of the extensive amount of work required to administer a checklist on internal controls. The activities we evaluated during this review received fiscal 1979 CETA funds totaling \$89.4 million.

At each location, we examined the agency's policies and procedures, administered a 340-page internal control checklist to agency officials (see app. III), and tested various transactions which enabled us to determine whether internal controls were in place and working properly. The checklist was based in part on standards promulgated in GAO's Policy and Procedures Manual for Guidance of Federal Agencies, which Labor has essentially adopted for its offices and grantees to follow. Specifically, we evaluated the controls over program and administrative activities. Program activities are those that deal directly with the basic purpose of the agency, such as awarding and managing grants. Administrative activities are those performed in support of the agency's basic mission, such as processing payroll or managing property assets. Many activities are performed daily while others, such as verification of physical inventories, require less frequent periodic performance.

We also evaluated CETA audit performance in terms of work undertaken at the grantee level, actions taken on audit findings, and audit staffing needs versus current staffing levels. The weaknesses discussed in this report refer to the locations we visited. They may or may not be representative of the entire CETA program. Also, the scope of our review would not permit us to apply the conclusions contained in this report to the CETA program as a whole. However, other studies and reports on CETA, including many by GAO (see app. II) have found problems at other CETA grantees. We believe the seriousness and extent of the internal control weaknesses found at the activities reviewed, and the corrective actions already taken or being taken by Labor, indicate that similar problems exist at other regional offices and other CETA grantees.

WITHOUT INTERNAL CONTROLS
ABUSES CAN OCCUR

The value of sound internal controls is best demonstrated by the following abuses uncovered by Labor officials during audits in fiscal 1977 through 1979:

- A relative of one subgrantee director who, although ineligible, was placed in the CETA program and paid \$9,204 over one year.
- A CETA participant received pay totaling \$5,800 for 8 months after termination from the program.
- Ineligible participants were hired and paid a total of \$33,551.

- Without obtaining the required approval from Labor, a prime sponsor permitted a subgrantee to lease 182 vehicles (for example, dump trucks, vans, buses, trucks, a roller, pickups) with CETA funds. The annual lease cost was \$353,725.
- A supervisor falsified timesheets of CETA participants who received payments totaling \$1,001 for hours not worked.
- A prime sponsor program developer created ghost employees and collected \$12,264.
- A participant was required to pay a \$1,300 kickback to an official of a subgrantee.
- A payroll advance of \$5,500 was given to a subgrantee whose biweekly payroll averaged \$1,300.
- A grantee used \$2,495 for personal expenses (such as motel, liquor, clothing, shoes), claiming it as an employee morale expense.
- A grantee used \$2,850 to pay for a wedding and reception on the Queen Mary, claiming it as an employee morale expense.
- \$100,000 of CETA funds was used to purchase land, to build a house, and to pay the consultant who designed the house.
- Five employees were paid \$26,543 for work there is no evidence they performed.
- A subcontractor was paid \$48,758 for training not provided and for salaries not earned.
- Falsified timesheets caused a \$964 overpayment.
- A CETA supervisor submitted fictitious employment forms and payroll documents and received paychecks totaling \$24,000 because the forms and documents were not reviewed.
- A chief timekeeper falsified timesheets of CETA participants to obtain \$3,019.
- A subgrantee hired ineligible participants by falsifying records and claiming reimbursement of \$7,899.

We also noted other audit findings--too numerous to mention.

PENDING LEGISLATION

We believe that internal controls can be made more effective by strengthening existing law. The Congress is considering two pieces of legislation that would require greater accountability

by heads of Federal agencies for the effectiveness of their organizations' systems of internal financial control. The Financial Integrity Act of 1981 (H.R. 350, 97th Cong.) would require agency heads to undertake annual evaluations of their organizations' internal control systems and report the results of such evaluations to the Congress and the President. The Federal Managers' Accountability Act of 1981 (H.R. 1526, 97th Cong.) would require (1) ongoing evaluations and reports on the adequacy of the systems of internal accounting and administrative control of each executive agency and (2) the head of each agency to include, with the request for appropriations, a statement certifying that the request is based upon an accounting system that has been approved by the Comptroller General.

We would participate in this process by providing guidance for conducting the examinations and by reviewing the results. We believe both pieces of legislation would contribute to the development of adequate internal control systems in the CETA program. Our experience is that internal control systems require a commitment from top management and consistent vigilance to be effective. Therefore, we support legislation of this nature and believe it will definitely help bring about such commitment and vigilance.

In the following chapters, we present our evaluation of Labor and CETA internal controls, highlighting weaknesses needing improvement. At the end of each chapter are recommendations which we believe should provide Labor with the necessary protection against fraud, waste, and abuse. Appendix I summarizes specific internal control weaknesses found at each location visited during this review. Appendix II contains a list of prior CETA reports dealing with administrative weaknesses.

CHAPTER 2

CONTROLS NEED STRENGTHENING

AT LABOR HEADQUARTERS AND REGIONAL OFFICES

The Budget and Accounting Procedures Act of 1950 charges heads of executive agencies with responsibility for establishing and maintaining good internal controls over their operations. However, we found that internal controls over many key tasks performed at Labor headquarters and at some of its regional offices are inadequate. (See app. I for details.) Specifically, we noted problems in the areas of receipts, disbursements, and property management which occurred because managers have concentrated more on delivering program funds and services than on grantee oversight to ensure that management and internal controls are properly safeguarding funds from fraud, waste, and abuse. As a result, money due from grantees was not collected for years; Labor made duplicate payments for the same service or product (see pp. 11 and 12) and awarded a \$100,000 contract extension to a firm whose performance under a sole-source contract was questionable; travel advances of at least \$77,000 have not been liquidated by employees who no longer work at Labor (see pp. 14 and 15); and \$13,000 was fraudulently obtained in 1978 from Labor's supplemental payroll.

CONTROLS OVER RECEIPTS WERE INSUFFICIENT

Unspent grant funds, money owed Labor from disallowed grantee expenditures, and overpayments to vendors and employees are not (1) collected without undue delay, (2) properly safeguarded when received, and (3) promptly deposited in U.S. Treasury accounts after receipt. As a result, funds due the Government may or may not be deposited to its account. When they are deposited, there is no assurance that it was done promptly to prevent interest loss.

Federal agencies are required by the Budget and Accounting Procedures Act of 1950 to maintain adequate control of all cash receipts. Our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 12.2 and 7 GAO 11.1) was designed to help agencies ensure that receipts are well managed. The manual requires that internal controls be established to ensure that amounts owed the Government are (1) promptly determined, (2) recorded as accounts receivable, (3) collected as soon as possible, including interest charges for late payments, (4) safeguarded when received, and (5) promptly deposited in U.S. Treasury accounts. Responsibility for these functions should be assigned to different employees to provide proper internal checks on performance and to minimize opportunities for intentional or accidental misuse of Federal funds.

At Labor headquarters and at the four regional offices we visited, internal controls over receipts were insufficient. Labor regional offices take too long in closing out grants, and in

determining and collecting the amounts of money misspent by grantees and identified during audits (see ch. 4). Neither headquarters nor regional officials properly safeguard collections upon receipt and make timely deposits. These deficiencies have been previously reported by our Office and have been recognized by Labor since at least 1974, when an internal audit report cited these same conditions. In responding to our September 1978 report, Labor agreed to monitor the timeliness of grant closeouts and to eliminate the backlog of expired grants and contracts needing to be closed out. 1/

As we recommended in an October 1978 report 2/, Labor has instituted a major effort to resolve audit findings involving questioned and disallowed grantee expenditures and to improve debt collection procedures. In response to our May 1979 letter report, Labor agreed to improve its controls over safeguarding and depositing receipts. 3/ We found, however, that Labor was still not closing out grants promptly and that receipts, once collected, were not properly safeguarded or promptly deposited in U.S. Treasury accounts.

Need continues for expediting grant closeouts

At the time of our review, grant officers in Labor headquarters and regional offices were responsible for closing out grants when the work was completed. The closeout process (1) formally determines whether all applicable administrative actions and required work under a specific grant has been completed by the grantee and grantor, and (2) identifies the amount of unused funds, referred to as unencumbered balances. The Code of Federal Regulations (29 CFR 98.17) requires the immediate refund of any unencumbered balances.

At Labor's Seattle regional office, we found that 67 CETA grants had been awaiting closeout procedures for more than 6 months. Of these, 20 were awaiting information from prime sponsors; 22 were backlogged in the region's closeout process; and 25 were awaiting resolution of audit findings. The average time these 67 grants had been awaiting closeout was 17.3 months--nearly 1-1/2 years after their expiration. Several of these grants had been expired for nearly 2-1/2 years. Some of the reasons for the delays in grant closeouts were that the region was waiting for the prime sponsor to correct certain audit deficiencies and some subgrantees had audits in progress.

1/"Need For Increased Emphasis On Timely Contract And Grant Close-Out Activities" (HRD-78-142).

2/"More Effective Action Is Needed On Auditors' Findings--Millions Can Be Collected or Saved" (FGMSD-79-3).

3/Letter report to the Secretary of Labor (FGMSD-79-29).

Labor regional officials in Chicago informed us that only 30 to 50 percent of its grants are promptly closed out but explained that a chief cause of delay was tardy closeout of subgrants by prime sponsors. For example, one prime sponsor usually took between 4 and 8 months to close out its subgrants. In one instance, an expired CETA grant with unspent funds totaling almost \$2 million took several months to close out. This case demonstrates that in some instances grantees contribute to lengthy delays in closing out grants, and supports our contention that greater grantee oversight is needed so that unspent grant money is promptly returned to the U.S. Government.

Since we completed our review, new procedures governing the grant closeout process have been implemented. Regulations now permit funds to be carried over by the prime sponsor from one year to the next. The carryover is subject to approval by the regional administrator. Preliminary approval is based on the series of final reports that must be submitted by prime sponsors when they complete their annual plan. (The annual plan is a document used by Labor officials to monitor a prime sponsor's performance against the long range goals in its master plan.) Final approval for carryover is made only after an audit has been performed, audit findings have been resolved, and final reports have been submitted.

Collections should be properly
safeguarded and deposited upon receipt

When collections from unspent grant funds, disallowed grantee expenditures, or overpayments to vendors were received, they were not logged in, adequately accounted for, promptly deposited, nor properly safeguarded until deposited. Deposits totaling \$1,000 or more were not made promptly as required by our Policy and Procedures Manual for Guidance of Federal Agencies, Labor's Financial Management Manual, and Treasury's regulations. At three of the four regional offices visited, we found that management had made some improvements in depositing collections since our previous visits. However, the Chicago regional office still was not following GAO's, Treasury's or Labor's procedures. Labor's procedures require deposits of more than \$1,000 to be deposited daily. We examined 13 deposits, 11 of which were for amounts greater than \$1,000. GAO found that the regional office took 5 days to deposit a \$135,863 check and 6 days for a \$68,560 check. The average time to make deposits was 4.5 days. In one other instance, it took this office 33 days to deposit a check for \$137.57.

In a previous audit of all Labor regional offices, 1/ we noted that (1) persons in six regional offices (including the four visited in this review) who receive checks usually do not log them in when

1/Letter report to the Secretary of Labor (FGMSD-79-29, May 21, 1979).

they open the mail and (2) checks being processed do not have receipt documents attached. Situations such as these increase the chance of collections becoming lost and hinder attempts to locate lost collections.

In three of the four regions reviewed, we also noted an inadequate separation of duties in handling CETA fund receipts from prime sponsors. For example, at one office the same person received checks, recorded them in accounting records, prepared deposit slips, and reconciled bank statements. The substantial control thus given one person would enable that person to falsify accounting records indicating payment to the Government while keeping the check for personal use.

Both our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 11, 12. 2) and Labor's Financial Management Manual state that agency collections should be placed under appropriate accounting controls upon receipt and deposited promptly in an authorized depository. Appropriate accounting controls should provide for collections received by mail to be logged in by the persons opening the mail and properly safeguarded until deposited.

CONTROLS OVER DISBURSEMENT
WERE INADEQUATE IN SEVERAL AREAS

Our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 24.1) states that the principal objectives of control over disbursements are to ensure that all disbursements are legal, proper, correct, accurately recorded, and promptly reported. We found that management and internal controls over disbursements at Labor headquarters and the Chicago regional office were inadequate in the following areas: procurement, travel, imprest funds, and payroll. Problems exist because management has not provided sufficient oversight to ensure that GAO guidance and Labor regulations and instructions are implemented properly. As a result of the above weaknesses

- duplicate payments of at least \$198,000 were made,
- a questionable extension to a sole-source contract was awarded,
- \$77,000 in outstanding travel advances have not been liquidated by persons no longer employed at Labor, and
- the supplemental payroll was defrauded of about \$13,000.

Thus, some disbursements were illegal, improper, and incorrect.

Better controls over
procurement are needed

Labor frequently contracts for services and studies to support the CETA program and its administration. We found that Labor did not sufficiently review vendors' invoices to determine whether payments had already been made. The Department's records over 29 months show that over \$198,000 in duplicate checks have been returned by vendors and contractors. Deficiencies also exist in Labor's system for awarding contracts.

Sound internal controls over procurement should include, minimally, the following checks and balances:

- Preparation and supervisory review of numbered purchase requests, purchase orders, and receiving reports.
- Comparison of receiving reports with invoices and purchase orders.
- Solicitation of goods and services to be purchased through many different potential sources of supply.

Our review showed that these checks and balances were not always exercised.

We found that invoices submitted by vendors requesting payment for goods or services were not sufficiently reviewed and compared with supporting documentation to determine if they were legitimate or had already been paid. Thus, duplicate and unsupported invoices have often not been detected and duplicate payments have been made. For example, one vendor submitted duplicate invoices and received duplicate payments totaling at least \$6,100 over 13 months ending in June 1979. He was caught after his complaint about not receiving a payment for an invoice was investigated and detected by Labor, which is now investigating the vendor to determine whether he has received other duplicate payments.

Labor records indicate that vendors and contractors have returned 148 duplicate checks, totaling over \$198,000, between January 1976 and May 1979 (excluding 1977 records which were not available at the time of our review). Labor possibly has issued many other duplicate checks which have been retained by vendors, such as the one just described.

Labor officials told us that the Department has developed an automated procurement system that enables it to track procurements from the beginning and determine the legitimacy of vendors' invoices. They stated that the system is being implemented in one office--the Office of the Secretary. When fully implemented, this automated system is supposed to protect Labor against duplicate invoices.

Deficiencies also exist in Labor's system for awarding and monitoring contracts. In at least one instance, its failure to regularly seek competitive bids resulted in awarding a 12-month, sole-source contract for \$99,985 ^{1/} A Labor project official stated that the products would have, at best, limited value and the contractor indicated that one task would not be performed and the product of another task would be delivered late. The sole-source contract required that (1) four curricula modules be designed and tested, (2) two technical assistance manuals be produced, and (3) two conferences be presented. In the end, one curriculum module was dropped, as mutually agreed to by the Department and the contractor; of the three remaining modules, two were in final draft form and the research had been completed on the third when the original contract expired. By that same time, only the draft of one manual had been delivered and only one conference had been held (the other was canceled during the design stage). According to a Labor official the manual was "okay but not really professional." Nevertheless, the contractor was granted an extension of the contract expiration date and a \$100,000 increase in funding. In our opinion, proper monitoring of performance under the original contract should have precluded the approval of additional funding for products considered to have limited value by a Labor project official.

In its official comments on the draft report, the Department stated that the justification for going sole-source was that the contractor had specialized experience which uniquely qualified this organization to meet the requirements of the procurement. However, Labor's Deputy Director, Office of Policy and Planning, had previously told GAO that this organization was absolutely not the sole source for such work. The Department also acknowledged that the ETA staff was obliged to take a more active role than should have been necessary regarding the aforementioned conference.

Employee travel advances need better control

Employee travel is necessary to provide adequate oversight of the CETA program and other Labor activities. Limited Labor travel funds dictate that these funds be tightly managed and controlled. Our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 25.6) states that agency accounting systems should include procedures for periodic review and analysis of outstanding travel advances. All advances determined to be in excess of immediate needs should be promptly recovered to minimize outstanding advances.

^{1/}An example taken from our report entitled, "Controls Over Consulting Service Contracts At Federal Agencies Need Tightening" (PSAD-80-35, Mar. 20, 1980).

We found that controls over employee travel advances at Labor headquarters were inadequate in that outstanding advances were not reviewed to verify the amount and to determine the need for repayment. Our limited testing of Labor's travel advances, dating back to 1976, revealed that more than 200 employees have left Labor without paying back about \$77,000 outstanding at the time of their departure. Individual cases, occurring as recently as April 1980, represented amounts as high as \$3,500. 1/

We also found that some employees maintained excessive travel advance balances. For example, in Labor's Chicago regional office, our review of nine employee travel advances disclosed that eight were from \$20 to \$1,300 larger than authorized. Excess cash held by these employees totaled \$4,300. (According to Labor regulations, employees are permitted to maintain advance balances in amounts of 1-1/2 times their average monthly travel expenses for the preceding quarter.)

Thirdly, we found that duplicate travel advances had been issued to many headquarters employees because adequate records were not kept to show whether employee requests for advances had been processed. Prospective travelers often seek information on the status of their advance requests but records frequently do not show whether the advance request has been processed. In these instances, another request is made, usually causing the issuance of a duplicate travel advance check. Our limited test revealed 38 duplicate checks totaling \$14,074 since 1976.

Because our tests were limited, more instances of these types might have occurred and may still be occurring. As of April 1980, outstanding travel advances in Labor totaled \$4.8 million.

We have previously reported similar circumstances involving Labor. In a May 1979 letter report to the Secretary, we pointed out that travel advances were not reviewed in the Boston, Dallas, Denver, and Seattle regional offices of the Office of the Assistant Secretary for Administration and Management and that officials agreed to exercise tighter control over outstanding travel advances. 2/

A Labor official told us that the Department has an established exit procedure to make sure departing employees have no outstanding travel advances but that the procedure had been implemented inconsistently. Discussions with Labor officials revealed that several actions have been taken to tighten controls over outstanding travel advances. Foremost is an effort spearheaded by the

1/This data was updated for our May 1980 testimony on CETA before the Subcommittee on Manpower and Housing, House Committee on Government Operations.

2/Letter report to the Secretary of Labor (FGMSD-79-29).

Deputy Assistant Secretary for Administration and Management to monitor travel advances weekly and reprimand Labor offices or regions failing to comply with regulations. We believe these actions should significantly improve Labor's control over travel advances. An additional procedure would tighten controls even further: the payroll system should include data on employees' outstanding advances so they could be promptly liquidated through deduction from wages.

Controls over imprest funds
should be improved

Internal controls over disbursements from and replenishment of one Labor imprest fund were inadequate in that

- there were no written procedures informing the fund cashier how to operate the fund,
- the fund cashier was reimbursing employees for local travel costs without verifying their signatures,
- the fund was not regularly audited by Labor auditors, and
- fund reimbursement requests (vouchers) were not canceled when replenishment checks were received, causing duplicate requests and reimbursements of at least \$5,526 to be made.

These petty cash accounts are used for small cash purchases and for reimbursing employees for local travel costs.

Our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 27.6) requires agency officials to ensure that imprest fund cashiers can account for all the funds advanced to them.

We have reported similar deficiencies before, most recently in a May 1979 letter report to the Secretary of Labor. Although we were assured corrective actions would be taken, apparently not all offices have implemented practices to properly control imprest funds.

Payroll controls should be improved

Although we did not review Labor's payroll system, events that occurred before our review showed that its payroll system for 20,000 employees lacked sufficient internal controls to ensure proper disbursements. Labor officials informed us that its supplemental pay system had been defrauded of about \$13,000 in 1978.

That same year, Labor contracted with a Certified Public Accounting (CPA) firm to audit its internal controls over payroll activities. The firm's January 1979 report disclosed several serious control deficiencies, including

- failure to audit the payroll system,
- failure of internal auditors to review, before implementation, changes to computer systems affecting payroll,
- failure to document changes made to the payroll system since its design was approved by GAO in 1972,
- use of computer software that was inadequate to protect the files,
- assignment of programmers instead of computer operators to process the payroll because inadequate documentation prevented operators from doing it, and
- lack of departmental operating instructions specifying the need for controls over duplicate employee records.

According to Labor officials two situations allowed the \$13,000 to be embezzled from its supplemental payroll system in 1978--a lack of separation of duties and supervisory review of payroll corrections processed as supplemental payrolls. The same individual was responsible for (1) scheduling employees who were to receive supplemental pay checks, (2) preparing automatic data processing cards for each employee scheduled for payment, (3) delivering these cards to the Department of Treasury which prepared the checks, and (4) picking up the checks from Treasury for distribution to employees. No one reviewed this work. The individual added his name or those of fellow employees to the necessary documents and received checks totaling \$13,000 over 18 pay periods.

This scheme might still be working had the individual not forgotten to prepare a card containing his name when he delivered the supplemental payroll to Treasury. Comparing the actual number of cards delivered to the number appearing on the accompanying voucher and schedule of payments, a Treasury clerk noticed that a card was missing. When this was brought to the Labor employee's attention, he left and later returned with a card he said he had forgotten. As he attempted to sneak the card containing his name into the stack, the Treasury clerk noticed the name on the card and later reported the incident to his boss. Upon confrontation, the Labor employee admitted his wrongdoing. He and three others who received fraudulent checks have since been convicted and sentenced to jail or placed on probation.

Labor has now audited its supplemental payroll disbursements for payroll clerks, has established a control unit in the payroll section, and uses a magnetic tape system for preparing and processing the supplemental payroll. According to Labor officials, the new control practices already have detected another attempted alteration of the payroll. Labor officials told us they are trying to decide whether to contract with a CPA firm or use an in-house

task force to review payroll problems and correct the deficiencies found by the earlier CPA audit discussed above. In our opinion, Labor's Office of Inspector General should perform an audit of the regular and supplemental payroll systems to ensure that the above improvements have been implemented and determine whether they provide adequate control of payroll disbursements.

MANY CONTROLS OVER PROPERTY
PURCHASED WITH FEDERAL FUNDS
WERE NOT BEING PRACTICED

We found that many internal controls over property were not being practiced at Labor headquarters Employment and Training Administration and four regional offices. For instance:

- Property management duties were vested in too few people to provide sufficient and necessary checks and balances. In Boston and San Francisco, persons responsible for maintaining property records also conducted physical inventories and signed for the receipt of newly purchased property. Occasionally this also occurred at Labor headquarters.
- At Labor headquarters and in Chicago and Seattle, newly purchased property was not promptly entered onto inventory records and adjustments to inventory records were made without supporting documentation.
- Annual physical inventories were not always taken. At Labor headquarters, 18 months had elapsed since the last inventory, and in Seattle the last inventory--a partial one--had been taken 14 months before.
- Grantee property management systems were not effectively being monitored by the Chicago office. The property manager had not made on-site visits to grantees and inventory certifications were not on file.
- We could not locate some property (such as calculators, projectors, chairs, and typewriters) during our inspection at Labor headquarters (ETA) and two of the four regional offices we visited.

Good property management requires that property be (1) promptly entered into inventory records and into the general ledger system upon receipt, or promptly removed from records upon disposal, (2) numbered for easy, quick identification, and (3) inventoried periodically. In addition, records should be adjusted after physical inventories, subsequent investigations should determine the reasons for any missing items, and separate tasks should be performed by different people. Labor's Policy and Procedure Handbook for Personal Property and its Property Management System User's Guide incorporate these fundamental controls.

Because these controls over Labor's property management system have not been enforced, much of its estimated \$229 million worth of property (\$34 million of it for Labor, \$145 million of it controlled by contractors, and \$50 million of it controlled by grantees) bought with Federal funds is susceptible to undetectable loss or theft. Contributing significantly to property management problems was the fact that, at the time of our review, property officers throughout Labor and its regional offices had received little or no training in property management. This fact was consistently pointed out to us as we brought our findings to the attention of the accountable property officers. Recently, Labor officials told us that training is now being given to property officers who monitor CETA and those who work with the Department's property.

At the time of our review, many items were missing from inventory because Labor's property purchased with Federal funds was not properly protected. For example, 8 of 29 items we selected for review from Labor headquarters (ETA) property records could not be located. The missing items included a copying machine, typewriters, and calculators valued at \$10,721. Labor officials said they would perform a physical inventory and either determine the whereabouts of this property or the circumstances surrounding the loss if the items could not be found. In Seattle, we could not locate a \$383 16mm movie projector, a \$652 executive chair, or a \$604 calculator. And in Boston, two overhead projectors costing \$239 each and a \$371 dictating machine were not listed on property records.

CONCLUSIONS AND RECOMMENDATIONS

At the time of our review, Labor headquarters and the four regional offices we visited lacked adequate management and internal controls over receipts, disbursements, and property. Specific areas needing improvement include: grantee closeouts, safeguard and collection of grant funds, review of vendor invoices and contract award procedures, liquidation of travel advances, imprest fund operations, payroll disbursement, and property management recordkeeping and inventory. Improvements in these areas can help reduce Labor's vulnerability to fraud, waste, and abuse.

Labor has taken many actions which, when fully implemented, should significantly improve its control and visibility over receipts, disbursements, and property and provide a more effective CETA program. However, we believe further improvements are needed. We therefore recommend that the Secretary of Labor require

- headquarters and regional office staff and prime sponsors to aggressively enforce existing requirements that cash collections be safeguarded, recorded, and promptly deposited upon receipt,
- regional offices to establish and/or effectively implement controls over separation of duties for those employees handling CETA cash receipts from prime sponsors,

- Labor headquarters, regional offices, and all grantees to thoroughly review vendor-submitted invoices and compare them with supporting documentation to determine whether they are legitimate or have already been paid,
- the Department's payment services group to review disbursements to vendors who have previously received duplicate payments to determine whether more have occurred and, if so, take steps immediately to collect these duplicate payments,
- the Inspector General's office to examine the automated procurement system and, after it is fully operational, determine whether controls built into the system are adequate to protect against payment of duplicate invoices,
- the Department to seek competitive bids on proposed procurements and to evaluate the results of a contractor's ongoing performance before granting additional funding,
- that the payroll system include data on employees' outstanding travel advances so advances can be liquidated promptly through deduction from wages,
- the Department's Comptroller to implement consistently the employee termination procedure so that the office responsible for controlling travel advances must indicate whether a departing employee has an outstanding advance,
- Labor's Comptroller to write and implement procedures governing the operation and maintenance of imprest funds and require periodic surprise audits of these funds,
- the Office of the Inspector General to audit the regular and supplemental payroll systems to ensure that improvements have been made and to determine whether they provide adequate controls over payroll disbursements, and
- headquarters and regional office property staff to (1) promptly enter newly purchased property into inventory records and into the general ledger system and to reconcile the records periodically, (2) take regular physical inventories, (3) segregate duties to provide adequate checks and balances, and (4) attend training courses that will increase their understanding of sound controls over property.

AGENCY COMMENTS AND OUR EVALUATION

The Department concurred with all our recommendations in this chapter. However, with regard to the recommendation that the payroll system include data on outstanding travel advances, the Department stated that it plans to implement a system that will routinely report advances on employees' earnings and leave statements.

The Department further stated that actual recovery of the advances would occur only after prior notice to employees. In our opinion, this reporting system and notification process will satisfy the intent of our recommendation.

Labor's official comments (see app. IV), also cited some corrective actions that had been taken since our audit was completed. Among other things, the Department has strengthened its internal controls over cash management and disbursements and has promised additional corrective action in these areas as well as in controls over payroll, procurement, imprest funds, and property management. Details of the corrective actions already taken and planned are provided in appendix IV.

CHAPTER 3

GRANTEE ORGANIZATIONS NEED BETTER

INTERNAL CONTROLS OVER OPERATIONS

The CETA prime sponsors and subgrantees we visited lack adequate internal controls over their operations to ensure legal, prudent, and proper expenditure of funds. This is so even though Labor, through its Employment and Training Administration, has provided grantees numerous, detailed regulations and guidance stressing the importance of internal controls and delineating ways to establish a sound internal control system.

We found that these grantees have generally disregarded ETA guidance, their own procedures, and repeated audit recommendations to improve their internal controls. For example, at the time of our review we found the following:

- Three of the four subgrantees maintained excessive cash balances because their prime sponsors did not adequately review requests for cash advances.
- One prime sponsor exceeded its grant obligation by over \$577,000 because it failed to establish a budget to assist in managing and controlling expenditures.
- Two of the nine grantees we visited did not sufficiently verify the eligibility of prospective CETA participants.
- All four subgrantees we visited lacked sound internal controls over CETA payroll disbursements, allowing erroneous and excessive wages to be paid to some participants.
- Inadequate purchasing procedures at one grantee resulted in improper purchases totaling \$25,561.
- Three of the four prime sponsors we visited had established the required independent monitoring units but had done little to review subgrantee activities or their systems of internal controls.

In addition, we found (1) internal control weaknesses in administrative disbursements for purchases of office equipment and (2) headquarters had not provided sufficient grantee oversight to ensure that grantee management and internal controls are implemented in accordance with Labor instructions. The problems are compounded by the fact that CETA prime sponsors we reviewed have done little monitoring of subgrantee activities. As a result, these grantees are vulnerable to fraud, waste, and abuse in nearly every program and administrative activity: disbursements, receipts, grant monitoring, financial reporting, and property management.

GRANTS NEED CLOSER MONITORING BY LABOR

Most of the funds annually appropriated (\$8.1 billion in fiscal 1980) for the CETA program are disbursed nationwide to grantees who administer employment and job training programs for unemployed and unskilled persons. Labor's regulations and other instructions require grantees to adopt adequate internal controls over grant funds. However, Labor must ensure that its instructions are implemented so that grant funds are spent prudently and in accordance with enabling legislation. Labor should (1) have sound internal controls over reviewing and approving grant applications, (2) ensure that grantees have good internal controls to minimize intentional or accidental misuse of Federal funds, (3) regularly monitor grant expenditures to ensure they are legal and proper, and (4) using the assessment instrument and results of audits, promptly assess the prime sponsors' annual plans to see whether they should be allowed to carry grant funds forward to the next fiscal year.

Labor officials contend that they are now doing most of these things. However, at the time of our review we found that Labor was not sufficiently monitoring the CETA program and grantee activities, especially in the areas of ensuring that grantees have strong internal control systems and that funds disbursed to grantees were spent in accordance with CETA legislation. Most grantees we visited had internal control weaknesses which have exposed Federal funds to improper use. These grantee deficiencies existed because

- regional Federal (field) representatives had not evaluated internal controls during periodic on-site visits to the grantees,
- grantee financial reports had not been sufficiently reviewed at the regional office level, and
- audits had not been performed as required.

During their on-site visits and reviews of prime sponsor operations, Federal representatives did not regularly perform fiscal monitoring. In our opinion, fiscal monitoring by Federal representatives during the program year is an important duty because of the deficiencies in the CETA audit process (see ch. 4 of this report). Federal representatives are to review and evaluate prime sponsor activities and, implicitly, subgrantee performance including their financial systems and reporting. When asked why Labor Federal representatives were not monitoring prime sponsors' or subgrantees' fiscal controls, Labor regional officials told us that the Federal representatives have neither the financial expertise nor the time to identify internal control weaknesses. Instead, Federal representatives have concentrated primarily on the grantees' program planning, accomplishments, and difficulties.

A congressional committee report on CETA issued in November 1979 noted that Federal representatives have had

- conflicting and unclear responsibilities for providing assistance to grantees and assessing their performance,
- enormous workloads that severely limited the time, effort, and detail they are able to devote to any particular grantee, and
- limited or no fiscal expertise for evaluating grantee internal controls.

In addition, Labor headquarters officials told us recently that the number of staff and the amount of travel funds are insufficient to allow adequate monitoring of prime sponsors by Federal representatives. As a result, insufficient attention has been given to internal control compliance, and Labor cannot be sure that its grantees have established the required internal controls.

Labor has taken numerous actions recently to improve its oversight of prime sponsors. It is redefining the Federal representatives' responsibilities to emphasize grantee monitoring and is developing performance standards that will specify what is expected of them. Labor's draft manual for CETA Federal representatives redefines their responsibilities and tasks them to be instrumental in resolving audits of prime sponsors. However, their ability to effectively execute this task is questionable since Labor contends the field representatives lack fiscal expertise. According to Labor officials, Federal representatives will be trained in how to execute their new responsibilities.

To supplement the efforts and abilities of Federal representatives, Labor has instructed other units of its regional offices to provide support when needed. For example, the Financial and Grants Management Units will provide necessary fiscal and internal control expertise to field representatives. Also, through such means as regional training centers (operated by Labor's newly created Office of Management Assistance), Labor is increasing the level and amount of technical assistance given to prime sponsors. These actions should significantly improve fiscal monitoring at the grantee level.

Finally, Labor has initiated unified audits of prime sponsors and subgrantees--Labor audits of prime sponsors and prime sponsor audits of subgrantees are conducted simultaneously. To provide continuous audit coverage of grantees, Labor is also establishing audit residencies in 17 of the more complex prime sponsors. This action should enhance the Department's oversight of CETA activities.

Although these actions may improve Labor's oversight of grantees to some extent, we have reservations about whether they will

totally correct the problems identified. For instance, although Labor is redefining the roles and responsibilities of Federal representatives with emphasis on monitoring, it has not really resolved the conflict of the Federal representative providing technical assistance versus fiscal monitoring. Moreover, our recent discussions with Labor officials lead us to conclude that, of the two functions--monitoring and technical assistance--these officials still believe technical assistance is far more important.

The training being planned for Federal representatives, according to Labor officials, will include about 2 days on fiscal matters. The purpose is to enable recognition of fiscal problems during on-site visits to prime sponsors rather than to develop fiscal expertise. This approach is certainly an improvement over the past, but as pointed out above, it appears to conflict with a draft redefinition of Federal representatives' responsibilities for resolving audits of prime sponsors.

In commenting on our draft report, Labor did not agree with our assessment and stated that technical assistance and fiscal monitoring are compatible. However, our concern is twofold. First, no clear-cut separation of duties exists between technical assistance and resolution of audit findings; both are responsibilities of the Federal representative. Secondly, the Federal representative's training and experience are inadequate to perform fiscal monitoring. Labor contends that the grant officer, not the Federal representative, is the final decision point on audit findings and determinations. The first draft of the Department of Labor's "Manual for Comprehensive Employment and Training Act Federal Representatives," provides lists of specific responsibilities for Federal representatives. Our evaluation of these lists leads us to conclude that the grant officer is merely serving in a perfunctory capacity with regard to the audit resolution process while the Federal representative actually prepares final findings and determinations.

Labor officials told us of plans to use other regional office units to supplement the efforts of the Federal representatives in monitoring fiscal matters and internal controls at prime sponsors. We approve of this action provided that (1) it is implemented consistently in all regions, (2) a sufficient number of staff and adequate travel funds are available for these visits, and (3) regional units have the fiscal expertise required to resolve problems identified by the Federal representatives.

PRIME SPONSORS SHOULD IMPROVE OVERSIGHT

Lack of attention to internal controls is not limited to Labor's oversight of prime sponsors. The same thing is true for prime sponsors' oversight of subgrantees. All CETA prime sponsors we visited provide grant money to other community agencies and State

or local governments (commonly referred to as subprime sponsors, subgrantees, or contractors). Prime sponsors as well as these subgrantees must have and use internal control procedures sufficient to prevent fraud and abuse. ETA regulations require prime sponsors to ensure that the money provided to subgrantees is used properly. Either organization can be held liable for misspent CETA grant money. ETA has set forth but has not enforced specific monitoring requirements that prime sponsors must exercise over subgrantees. Not only do the subprime sponsors have poor internal controls, but also prime sponsors have done little monitoring of their activities. As a result, there is little assurance that only eligible people are enrolled in CETA programs and that the enrollees are correctly paid. We found instances of excessive salary payments and one subgrantee incurring obligations exceeding the amount of its CETA grant.

ETA's regulations require prime sponsors to establish independent monitoring units to periodically review all program activities, services, and administration through on-site visits and analysis of program data. Specifically, units are required to

- review all systems for controlling program administration, particularly for determining participant eligibility,
- review pay records and attendance reports to ensure that controls are established for preventing unauthorized payments,
- review plans and procedures and subgrantee capability to carry out programs and activities, and
- monitor subgrantee maintenance of records on all expenditures of CETA funds.

Independent monitoring units are supposed to recommend corrective action to the prime sponsor, which must respond by indicating the corrective actions taken or planned. Finally, the prime sponsor must ensure that the monitoring unit is adequately staffed and trained to fulfill its responsibilities.

At the time of our review, three of the four prime sponsors we visited had recently established the required independent monitoring units but had done little review of subgrantee activities or their systems of internal controls. One of the monitoring units was ineffective because of a lack of staff. Consequently, the prime sponsors were unaware of many internal control weaknesses we identified. In our opinion, the sponsors would have known about the weaknesses if monitoring units had been established and staffed sufficiently and had reviewed subgrantee activities and their internal controls. Labor officials told us that, as of November 1980, they believed the independent monitoring units were functioning as intended.

If the corrective actions being performed by Labor (see pp. 23 and 24) had been implemented at the time of our review and if independent monitoring units had been operating as intended, the deficiencies we identified may not have existed.

MANAGEMENT AND INTERNAL CONTROLS
OVER GRANTEE PROGRAM ACTIVITIES
ARE INADEQUATE

We found the following weaknesses in management and internal controls among the nine CETA grantees we visited:

- Ineffective controls over cash advances and expenditure levels.
- Insufficiently controlled salary payments to CETA participants.
- Inadequate purchasing procedures for material used in training CETA participants.
- Insufficient verification of eligibility of CETA participants.

Not all of the above weaknesses occurred at each grantee.

As pointed out above, the existence of these problems is primarily due to lack of monitoring by Labor headquarters and regional officials and by inadequate oversight of subgrantees by prime sponsors. Labor officials told us the lack of monitoring was caused by insufficient staff and lack of travel funds for field visits to prime sponsors.

Ineffective controls over cash advances
and expenditure levels

One prime sponsor advanced CETA grant money to its subgrantees on the basis of written requests and in anticipation of upcoming expenses. The prime sponsor's internal procedures specified that subgrantee cash advances and balances could not exceed 3 days need or whatever was necessary to meet immediate needs. One subgrantee's limit was \$100,000. Yet, the prime sponsor's procedures were not being followed; the subgrantee requested, received, and maintained cash far in excess of the amount authorized. As of December 1978, this subgrantee had a cash balance of \$728,890. In the ensuing months, the balance was reduced somewhat but always exceeded the allowable 3-day limit. In May 1979, this subgrantee had \$372,500 in its CETA bank account. Prime sponsor and subgrantee officials acknowledged the excessive cash balances and explained that supervisors had not properly reviewed the requests and approvals for cash advances. Both agreed to implement procedures and practices for proper review of requests for cash advances.

In a similar instance, a subgrantee of a different prime sponsor had excessive cash balances in fiscal 1978 on three separate occasions ranging from \$78,000 to \$263,000. Again in this case, the prime sponsor did not sufficiently review the subgrantee's cash request.

Excessive cash balances not only deprive the U.S. Treasury of needed funds, but also provide an unnecessary temptation to improperly use these funds. For example, one subgrantee (a city government) used excess CETA cash to finance its entire city payroll of \$329,000 for 1 week. Over the ensuing 5 weeks, the city paid the CETA payroll from city funds, thereby liquidating its "debt" to the CETA program. City officials said that the matter was an oversight on their part and was caused by an erroneous withdrawal of funds from the CETA account rather than from the city's payroll account. On the basis of our analysis, we believe the mistake was made and not detected because of the failure to require or implement proper disbursement approvals by supervisors. A major contributing factor leading to the disbursement was the excess CETA cash maintained by the subgrantee.

Another prime sponsor we visited reimbursed the subgrantees for expenses they had already incurred instead of advancing grant money to them. This practice appeared to be a prudent way of controlling prime sponsor grant disbursements. However, when reviewing some actual expenditures, we found that the prime sponsor reimbursed a subgrantee for \$20,000 more than it had expended. This overpayment was caused by the prime sponsor and subgrantee failing to review the request for reimbursement, which contained a \$20,000 typographical error. Another subgrantee requested and received a cash advance of \$1.2 million (a 2-month supply) from its prime sponsor because the prime sponsor did not sufficiently review the subgrantee's request for cash. In our opinion, this lack of supervisory review, an essential internal control element, reflects the attitude of the CETA grantees toward internal controls.

Grant obligations were not sufficiently controlled at one prime sponsor causing it to exceed the CETA grant amount by \$577,498, as of June 1979. This prime sponsor did not establish a budget to assist in managing expenditures of its subgrantees. Instead, each subgrantee was provided a purchase order authorizing and obligating funds the prime sponsor considered sufficient to meet the CETA program's needs. However, subgrantees often requested and received increases in their purchase order amounts without the prime sponsor making corresponding decreases to other purchase orders. This resulted in the prime sponsor's overobligation of CETA funds. Since the prime sponsor approves and pays any subgrantee voucher that does not exceed the funds remaining in the purchase order, excess expenditures could easily be made.

Salary payments to CETA participants
are not sufficiently controlled

The four subgrantees we visited failed to establish sound internal controls over the CETA payroll disbursements allowing erroneous and excessive wages to be paid to some CETA participants. Payroll expenditures should be controlled by and based on documentation that accurately reflects the number of hours employees work. Our analysis of the payroll functions at the subgrantees that pay CETA employees showed virtually no control over the preparation or review of employee time and attendance reports--the basic documents used to justify and support employee payroll expenditures. Time and attendance reports were not always prepared or reviewed before payroll disbursements were made. We also found that payroll processing duties were vested in too few people to provide sufficient checks and balances over these disbursements. Specifically, one payroll clerk was given responsibility for approving time and attendance cards, maintaining vacation and sick leave balances, certifying the correctness of the payroll, making changes to the payroll, adjusting pay records to correct errors, and distributing payroll checks. This improper distribution of duties contributed to the following payroll improprieties:

- A CETA employee was overpaid by \$1,445 over 10 months because payment was made for 80 hours each pay period although only 60 hours were actually worked.
- Employees were automatically granted sick leave for their absences when they should have been charged leave without pay.
- Employees were permitted to take vacations without subtracting time taken from their annual leave balances.
- A suspended CETA employee was paid for 35 hours of work never performed because the supervisor failed to notify payroll officials of the suspension.
- Numerous discrepancies existed between weekly time and attendance reports and daily sign-in, sign-out logs.

We discussed these deficiencies with grantee officials and were told that in one instance corrective action had been taken, and in another the situation would be investigated. One grantee official also stated that they would attempt to recover overpayments to an employee.

Inadequate purchasing procedures
for material used in training
CETA participants

Several grantees' purchasing procedures and practices need strengthening. Some deficiencies we found could lead to abuses

while others have already contributed to improper purchases with CETA funds.

Our Policy and Procedures Manual for Guidance of Federal Agencies and ETA regulations specify that internal controls over purchasing be implemented to ensure proper and legal disbursements of grant money. CETA funds are made available to grantees for the purchase of materials which are (1) directly used by participants receiving CETA training (such as books and teaching aids), (2) used by CETA instructors for carrying out their training duties, and/or (3) ordinarily provided by the agency for the benefit and ownership of its regular employees (such as uniforms and tools). ETA regulations specifically state that CETA funds cannot be used to carry out the responsibilities of State or local governments.

At one subgrantee (a city government department), we found two purchases totaling \$25,561 in CETA funds for 1,024 water meters intended to be installed in private homes and used to determine revenues due the city. City officials justified the purchases by explaining that it was training 12 CETA participants to install and read the meters. These officials said they believed the purchase complied with the criteria described above. When we questioned the prime sponsor and Labor regional officials, however, they said the water meters should not have been paid for out of CETA grant funds.

Procedures of the above-mentioned subgrantee require prime sponsor approval of any purchase request in which the unit price exceeds \$50. Since the water meters sold for \$24.95 each, the purchases did not require prime sponsor approval. An additional control procedure requiring approval of purchases that total over a specific amount, such as \$1,000, would have prevented this situation. We stopped the use of CETA money to purchase 500 of these water meters (\$12,475) because they had not yet been delivered or paid for at the time of our review. However, the remaining 524 meters (\$13,086) were paid for and delivered in 1978. Labor regional officials assured us that the CETA program would be reimbursed by the city.

At one other prime sponsor, at three subgrantees, and at the national programs grantee, we found purchasing responsibilities vested in too few people to provide an adequate system of checks and balances and thus minimize the potential for fraud, waste, and abuse. For example, the same grantee personnel were usually involved in preparing purchase requisitions, purchase orders, receiving reports, and payment warrants to vendors. Also, we found that the grantees did not use proper documentation for approving payments. Although we did not find any actual discrepancies or abuses as a result of our limited testing of program purchases at these grantees, the conditions provide the opportunity for improper purchases, duplicate payments, or goods purchased not being entered into inventory records.

Eligibility of CETA participants
is not sufficiently verified

Four of the nine grantees we visited did not sufficiently verify the eligibility of prospective CETA participants on applications for enrollment into the program. As a result, the possibility of ineligible people being trained and paid with CETA funds at the expense of needy people, is excessively high. One cause for the grantees not sufficiently verifying participant eligibility was that CETA regulations, at the time of our review, allowed grantees wide latitude in establishing procedures for verifying eligibility. Consequently, there was no consistency among the grantees we visited regarding the methods and details of verification.

Two of the grantees did not follow their own procedures, and the verification practices being used were insufficient. For example, one grantee's procedures called for all CETA applicants to be referred from a State employment center which had a contract to verify the eligibility of all applicants for CETA training. However, the State employment center made no verifications. Instead, CETA applicants were required only to sign a statement attesting to the application information's accuracy.

The other grantee's procedures called for verifying the CETA applicant's length of previous employment, skills, individual income earned during the last 3 months of employment, family income earned for the last 6 months, and proof of residency. However, these procedures were not often followed. A study by the grantee's independent monitoring unit disclosed the required verifications were not made for about 26 percent of the 164 participants it reviewed.

We believe these deficiencies have created a high risk that ineligible people can be or are being employed, trained, and paid with CETA funds. In fact a Labor audit report estimated that up to 10 percent of the CETA participants, nationwide, do not qualify for the program.

At about the time of our review, Labor issued guidance, for implementation in fiscal 1980, to its grantees regarding a proper eligibility verification system. The guidance describes what information must be obtained and the minimum verification actions that must be taken to ensure eligibility. This guidance, if implemented by grantees, should reduce the risk of ineligible people being enrolled in the CETA program.

INTERNAL CONTROLS OVER GRANTEE
ADMINISTRATIVE ACTIVITIES
ARE INADEQUATE

Grantee controls over administrative disbursements and property management are weak and need improvement. In some instances,

these weaknesses have already contributed to actual abuses of Federal funds and assets. Internal control weaknesses include: (1) disbursements for purchase of office equipment and supplies, (2) travel disbursements, and (3) property management. All of these activities support the basic CETA mission and the operation of the grantees' organizations.

Administrative purchasing procedures and practices did not include necessary controls

All prime sponsors and subgrantees we visited made administrative purchases and disbursements for office equipment, supplies, consulting services, utilities, and miscellaneous goods. The grantees' systems of controlling these expenditures lacked several important internal control procedures which help ensure that only proper and legal purchases and expenditures are made. As a result, the grantees were vulnerable to fraud, waste, and abuse in this area.

A sound system of internal control over making and paying for purchases should include, at a minimum, the following checks and balances:

- Preparation and supervisory review of prenumbered purchase requisitions and orders which contain written justification for the purchase.
- Solicitation of goods through competitive bidding.
- Preparation of receiving reports when goods are delivered.
- Preaudit of payment requests before approval for payment (comparing purchase requisitions, orders, receiving reports, and invoices).
- Ensuring that funds are available before payments are made.

All of these tasks should be described in written procedures. Duties should be separated and administered centrally to provide uniformity and consistency throughout the organization.

Grantees either did not have written procedures for purchasing or the procedures were very general, providing little guidance on the steps necessary to produce proper results. The minimum controls listed above were frequently not practiced. For example, some of the grantees had no assurance that each purchase was legitimate or properly approved because requisitions were not prenumbered and did not include written justifications. One subgrantee ordered items by component parts when the whole would have cost more than a total of \$1,000. Prime sponsor and ETA reviews are required for purchases exceeding \$1,000, but neither review was made in this instance. This same subgrantee also purchased a camera outfit (\$1,035), a freestanding partition (\$1,434), and radio

equipment (\$6,000) without submitting purchase requests to the prime sponsor or ETA for review. Another grantee, which used requisition forms as a control, issued purchase orders based on machine copies of requisitions, thereby inviting duplicate purchases. Subgrantees did not submit evidence that competitive bidding was exercised for procurement when claiming reimbursement from prime sponsors. Additionally, grantees did not designate responsibility to specific employees for receiving purchased goods.

Controls over payments for purchases were inadequate. According to a voucher clerk at one prime sponsor, 70 percent of the payments were supported only by duplicate copies of invoices--most of them not certified as valid although this was required by the grantee's written procedures. Finally, one grantee did not maintain an up-to-date fund balance necessary to prevent overexpenditures and bad checks.

An adequate separation of duties did not exist in the requisitioning, purchasing, receiving, and payment processes. These conditions permit an excessively high risk that invalid purchases and payments can be made and significantly increase an organization's vulnerability to fraud, waste, and abuse.

Travel procedures did not require proper approvals or documentation of anticipated or completed travel

Two grantees did not have controls for systematically approving, processing, validating, paying, and documenting travel activities. For example, grantees did not have specific policies on the use of private versus Government-owned vehicles and public transportation, transportation discounts, submission of travel vouchers, or penalties for false statements. Grantees did not always require travel orders or travel vouchers and expensed travel advances rather than establishing accounts receivable owed by the traveler. One subgrantee paid 32 of its employees fixed monthly travel allowances of \$5 to \$25 but did not require them to provide proof that travel actually was conducted. At other grantees, vouchers did not contain necessary information such as travel departure and arrival dates and times. Usually, the same individual who authorized travel also reviewed and processed travel claims.

A sound internal control system over travel activities should require that (1) travel ordinarily be authorized before any expense is incurred, (2) reimbursements for expenses incurred be supported by proper documentation, and (3) claims be audited before payment. The weaknesses we identified can be attributed largely to the absence or vagueness of policies and procedures. The lack of adequate travel procedures and practices resulted in almost no controls over travel funds and made travel activities virtually unauditible. Therefore, travel activities were highly vulnerable to abuse at the grantees we visited.

Property management weaknesses have resulted in insufficient safeguards of Federal assets

Internal controls over equipment purchased by grantees with CETA funds were generally inadequate and in some cases almost non-existent. As a result, grantees could not always account for or locate property purchased with Federal funds. We could not find some pieces of equipment that the grantees had bought.

At one prime sponsor a physical count of equipment revealed 20 items valued at \$3,945 missing from its inventory. The sponsor did not investigate the loss. Among the missing items were five typewriters, three chairs, one desk, one dictating machine, a pocket calculator, and a duplicating machine. In a similar instance, one subgrantee had about \$14,000 of its CETA-funded equipment stolen. Included in the stolen items were a duplicator, typewriter, film projector, calculator, camera/recorder, and hammers. Although the prime sponsor reported the theft to the police, it made no independent investigation to determine whether security was adequate to safeguard CETA property. Most of the items missing would be valuable for personal use.

Good property management requires that nonexpendable items of equipment and supplies be (1) recorded in inventory records and the general ledger system soon after being purchased, (2) marked with identification or control numbers, and (3) inventoried annually and reconciled with property records and the general ledger. These tasks should be performed by employees not associated with the purchasing or disbursing functions, and by different people, if possible. At all grantees we visited, one or more of the following property management weaknesses were identified:

- Property records and physical inventories were taken and maintained by the same person.
- Property was not promptly, and sometimes never, entered into inventory records when purchased nor was it always deleted from records when loaned to others or permanently removed from possession.
- Property was frequently removed from inventory records without explanation or justification.
- Some physical inventories were not taken annually.
- Discrepancies between physical counts and inventory records were not investigated and final reports were not prepared.
- Property was often not marked with identification or control numbers.

The primary cause of these weaknesses is a failure of most grantees to enforce written procedures and to emphasize the need for

good internal control. Each of the grantee organizations agreed to correct the deficiencies we identified.

GREATER USE OF SANCTIONS IS NEEDED

The CETA Amendments of 1978 give the Secretary of Labor the authority to terminate or suspend financial assistance in whole or in part and to order sanctions or corrective action against prime sponsors that fail to (1) comply with the law or regulations governing CETA or (2) take action against subgrantees. The law also gives the Secretary authority to take similar action against subgrantees. However, the Department has made little use of this provision to correct deficiencies among either prime sponsors or subgrantees. This failure to apply sanctions has been demonstrated repeatedly during congressional hearings on CETA.

In our opinion, Labor must increase emphasis on the importance of internal controls at both prime sponsors and subgrantees to reduce or eliminate the types of problems discussed earlier in this chapter. However, if such attempts fail, then Labor should exercise fully its authority to impose sanctions.

CONCLUSIONS AND RECOMMENDATIONS

While Labor is making an effort to provide maximum financial support to our Nation's poor and unemployed people, we believe it has sacrificed accountability and sound financial management to a larger extent than is reasonable or allowable. In our opinion, the program and administrative deficiencies discussed herein can be corrected only by more Federal emphasis and action on grantee financial management and internal controls.

On the basis of our evaluation, we believe that Federal funds held by CETA grantees are vulnerable to fraud, waste, and abuse because essential management and internal controls are either lacking or are inadequate in the following areas:

- Three subgrantees maintained excessive cash balances.
- Four subgrantees failed to establish sound internal controls over CETA payroll disbursements and paid excessive wages to some participants.
- At one prime sponsor, three subgrantees, and a national programs grantee, separation of duties for purchasing was not adequate to provide proper checks and balances; at one subgrantee, inadequate purchasing procedures resulted in inappropriate expenditures of \$25,561 from CETA funds.
- Eligibility of CETA participants was insufficiently verified.

--Internal controls are weak over certain administrative activities, such as disbursements for office equipment, supplies, travel, and property management, which support the CETA program.

These weaknesses exist because neither Labor headquarters and regional officials nor prime sponsors have provided proper monitoring to ensure that sound controls exist and are working properly. Grantees could strengthen their controls at little or no additional cost by redistributing responsibilities among those already qualified to do the work or those who could be easily taught to do it.

Labor regulations provide guidance and instructions to grantees on instituting sound internal controls. Also, recent Labor actions are positive steps, and much-needed improvements can be achieved if grantees implement these actions. To ensure full implementation, we recommend that the Secretary of Labor:

- Require the Office of the Inspector General to conduct reviews of prime sponsor independent monitoring units to ensure that (1) ETA regulations are followed and (2) they are properly staffed with personnel skilled in evaluating internal controls.
- Take action to correct the deficiencies cited above and on the previous page.
- More aggressively impose sanctions upon grantees who have not corrected previously known management and internal control deficiencies.

AGENCY COMMENTS AND OUR EVALUATION

The Department has concurred with all recommendations in this chapter and has provided detailed information regarding its plans to take corrective action along the lines we have recommended. In its official comments on this report, the agency also offered additional explanations on the present status of its efforts to strengthen internal controls, including the use of sanctions, and its increasing use of an annual performance assessment to trigger corrective action. Appendix IV provides the agency's detailed explanations of the improvements it has undertaken or plans to make regarding the above recommendations as well as to improve its internal controls over cash balances, CETA payroll disbursements, prime sponsor purchasing procedures, verification of eligibility of CETA participants, and prime sponsor administrative activities. In our opinion, the corrective measures outlined in the Department's comments, if promptly implemented, will provide the additional internal controls necessary to minimize the agency's vulnerability to fraud, waste, and abuse.

CHAPTER 4

MORE EMPHASIS IS NEEDED ON FULFILLING CETA AUDIT

REQUIREMENTS AND FOLLOWING UP ON FINDINGS

Our review of CETA audit performance showed that Labor has benefited from CETA audits but that the audit process has not achieved its full potential because (1) many grantees have not been audited, (2) audit findings have not been adequately resolved or corrected, and (3) audit resources are inadequate. As a result, Labor does not have sufficient assurance that funds disbursed to grantees are properly controlled--which increases the CETA program's vulnerability to fraud, waste, and abuse.

To assure Labor managers and taxpayers that CETA funds are spent prudently and legally, which in turn maximizes program accomplishments, grantee audits must be conducted regularly and given a high priority by Labor officials. Although past audit and investigative findings bear out this need, Labor's record in accomplishing audits has varied significantly around the country. Specifically, (1) shortfalls exist in Labor's audit coverage, (2) Labor needs to act more aggressively to resolve audit findings, (3) Labor has insufficient audit resources--both staff and funds.

SHORTFALLS EXIST IN AUDIT COVERAGE

We have previously reported that fewer than one-half of the required CETA prime sponsor audits have been performed. Furthermore, we reported that Labor has no effective system for ensuring that CETA subgrantees are being audited in accordance with its regulations. ^{1/} At the time of our review, we found that 29 of the 460 CETA prime sponsors had never been audited. In its official comments on our draft report, the Department pointed out that these 29 prime sponsors represent only 3 percent of total CETA funding from fiscal 1976 through 1980 and that 26 of these prime sponsors have been or are now being audited. The Department further stated that the remaining three prime sponsors are scheduled for audits starting in March 1981. If Labor regulations had been followed, every original CETA prime sponsor would have been audited at least twice by now. Even when audits of prime sponsors are conducted, they do not include an analysis of CETA funds spent by subgrantees (the majority of CETA expenditures).

The regulations pertaining to the audit coverage of CETA state that

^{1/}Report to the Congress entitled "More--And Better--Audits Needed of CETA Grant Recipients" (FGMSD-81-1, Nov. 6, 1980).

"The Secretary of Labor shall * * * audit or arrange for the audit of grantees and their subgrantees * * *. Such audits shall normally be conducted annually but not less than once every two years."

Audit reports on prime sponsors are issued to ETA for resolution of audit findings. Reports on subgrantee audits are routinely handled by prime sponsors. All audits are performed under the management and direction of Labor's Office of Inspector General. Auditors from the Inspector General's Office or those under contract to that office (independent public accounting firms or State/local government auditors) perform the audits of CETA prime sponsors. Prime sponsors usually arrange for audits of subgrantees. Subgrants of \$100,000 or more per year must be audited on a 2-year cycle. Those of less than \$100,000 per year are to be audited on a sample basis.

Apart from Labor's failure to audit some prime sponsors, we found that audits of prime sponsors include no analysis of funds spent by subgrantees, who spend the majority of CETA funds. Also, Labor could not tell us the extent to which subgrantee funds are being audited because it has not established an effective system to audit and monitor all prime sponsors, let alone ensure that they are carrying out their subsponsor responsibility. The results of a questionnaire we sent to all prime sponsors indicated that only 71 percent of the subgrantee funds required to be audited in the program's first 3 years had been audited. Thus, about \$1.2 billion in CETA expenditures was not audited although Labor regulations clearly require that such audits be performed.

In its official comments on our draft report, the Department stated that auditors have always been required by the CETA audit guide to analyze subgrantee audit reports and include the results of that analysis in the report on the prime sponsor. The agency went on to say that, in some instances, disclaimers of opinion have been expressed in the prime sponsor report because of a lack of subgrantee audit coverage. As pointed out on page 33, the Department has taken corrective action by establishing audit residencies and through unified audits of prime sponsors and related subgrantees.

MORE AGGRESSIVE ACTION IS NEEDED
TO RESOLVE AUDIT FINDINGS

As discussed earlier in chapter 1, CETA audits have uncovered many grantee internal control weaknesses, some resulting in questionable expenditures and others creating the potential for unauthorized disbursements. When audits disclose such findings, corrective action and the resolution of findings are essential. We found, however, that because Labor has only recently begun to aggressively resolve audit findings involving questionable grantee expenditures, a tremendous backlog exists. We also found that

several grantee internal control weaknesses identified during our review had been identified in previous Labor audits. Corrective action was not taken by the grantees, and Labor did not aggressively pursue the matter. In our opinion, Labor's failure to resolve audit findings adversely influences grantees--they lack the incentive to correct known deficiencies.

Backlog of unresolved audits
involving questionable expenditures

An earlier GAO report ^{1/} stated that, as of March 31, 1977, Labor had 2,028 unresolved audit reports involving about \$165 million in questioned costs. However, we were unable to identify the specific number of unresolved CETA audits because Labor excluded from its tracking system many audits done by public accounting firms and State and local governments. The report also stated that (1) lengthy delays occurred in resolving audit findings, (2) Labor was prematurely closing out audit reports before corrective action was completed, and (3) periodic reports did not show the status of corrective actions. Several recommendations were made to alleviate the problems.

In response to that report, the Director of the Office of Management and Budget instructed heads of executive departments and agencies to launch an immediate review of their organizations' systems of audit followup and to comply with OMB directives. However, Labor only recently initiated a comprehensive program to bring under control its backlog of unresolved audits. Consequently, the number of unresolved audits involving questioned costs is still extremely large. At the time of our review, Labor reported 810 unresolved CETA audits involving \$172.3 million in questioned expenditures. Of these, 524 reports (65 percent) and \$78.3 million (45 percent) were over a year old. During this review, we found that considerable delays in resolving audits are still being experienced. As of December 31, 1980, the CETA backlog (unresolved audit reports over 120 days old) included 555 audits involving \$158.2 million in questioned costs.

In Labor's San Francisco regional office, for example, we reviewed eight unresolved audit reports involving \$5.9 million in questioned costs. Labor officials had not decided on the allowability of these expenditures even though the audit reports were from 6 to 12 months old. Labor's regulations specify that cost allowability be determined within 120 days (4 months) of receipt of the audit report.

In analyzing this same region's collection efforts (when grantee expenditures have been disallowed), we observed lengthy

^{1/}"More Effective Action Is Needed On Auditors' Findings--Millions Can Be Collected Or Saved" (FGMSD-79-3, Oct. 25, 1978).

delays in recovering money owed the CETA program. At the time of our review, five grantee debts totaling \$120,000 had been disallowed 5 to 35 months earlier but had not been collected.

The Department reviewed these grantee debts and found that:

- Two of the audit determinations are under appeal by the grantees and thus are not yet subject to collection.
- One of the debts has since been collected.
- One of the grantee debts, totaling \$71,615, has been sent to the national office for referral to GAO after numerous unsuccessful attempts to recover the disallowed costs.

In Labor's Boston regional office, we found that the determination of cost allowability for all audit reports from April 1976 to August 1979 took 6 to 36 months. Of the \$5.3 million in expenditures disallowed during this same period, only \$18,242 had been collected.

To improve its audit resolution process, Labor recently implemented a new program including (1) monthly progress reports, (2) using contractors to supplement current staff levels, (3) assessing employee performance in reducing the backlog of audits, (4) developing a manual detailing debt collection steps, and (5) training grant officers in audit resolution. These programs should reduce Labor's backlog of unresolved audits and uncollected debts owed the CETA program.

More aggressive corrective action
needed on audit findings

Several internal control weaknesses we identified at grantees had previously been reported to Labor by auditors of independent public accounting firms. Other weaknesses we found had previously been reported by Labor officials during routine monitoring visits to grantees. In all instances, recommendations for improvement were made and the grantees were instructed to correct the deficiencies. Yet, corrective measures were not taken and the grantees continued to operate without sound internal controls and without sanction for failing to comply with prescribed CETA regulations.

A 1978 audit of one prime sponsor disclosed the following internal control weaknesses:

- Cash balances were often not limited to the minimum amounts needed.
- Final reports for expired grants were not filed within the required time frames.

--Required financial reports were not filed promptly.

--Audits of subgrantees were not performed as required.

--Many records to support expenditures were not retained.

--CETA participant eligibility procedures needed to be strengthened.

Many of these same deficiencies were also identified during a 1977 audit. Labor instructed the prime sponsor to take corrective action but did not follow up to determine if the grantee did so. Some of the deficiencies had been corrected when we visited the grantee in July 1979, but we found additional internal control weaknesses not disclosed in earlier audits in the areas of payroll, property management, and purchasing.

Another prime sponsor was regularly cited by Labor field representatives for failing to have written accounting and reporting procedures that complied with CETA requirements. These deficiencies were noted in 1975, twice in 1976, in 1977, and again in 1979. A 1978 Labor-sponsored review of this prime sponsor disclosed not only this same weakness but also (1) a 4-year failure to regularly monitor subgrantee fiscal activities, (2) many subgrantees with inadequate internal controls, and (3) two unauditible subgrantees (due to inadequate financial records) funded by this prime sponsor. Each year the prime sponsor promised, but failed to implement, corrective action. Each year Labor knew of the deficiencies but took no action to see that the problems were corrected.

In our opinion, these situations continue because of Labor's failure either to actively follow up on findings to determine whether corrective actions were taken or to take strong action against grantees who are found repeatedly to have weak controls. Also because of this failure, we believe grantees lack adequate incentives to correct deficiencies.

SHORTAGES PERSIST IN AUDIT RESOURCES

Twice before we have reported on the size of Labor's audit force: "Federal Civilian Audit Organizations Have Often Been Unsuccessful In Obtaining Additional Staff," 1/ and "More--And Better--Auditing Is Needed Of CETA Grant Recipients." 2/ In each report, we stated that Labor's audit organization did not do well in obtaining agency approval for increases in auditing positions (only 40 of the 140 requested positions were approved for fiscal

1/FGMSD-79-43, July 27, 1979.

2/FGMSD-81-1, Nov. 6, 1980.

1974 through 1978). Labor's audit organization actually fared worse--decreasing from 144 professional auditors in December 1973 to 124 auditors in July 1979. However, the Congress has authorized Labor's Office of the Inspector General to increase its staff by 132 positions in fiscal 1980. The Inspector General has designated the audit organization to receive 59 of these positions. The Acting Inspector General of Labor told us:

"* * * by far the greatest problem we have is the imbalance between workload and the resources available to do the job. The shortfall between regulatory requirements for audit and what we have actually been able to accomplish increases from year to year."

In November 1980, a Labor official told us that as of September 1980 the full-time ceiling for audit was 233 positions but only 153 of those positions were filled.

CONCLUSIONS AND RECOMMENDATIONS

Some of Labor's recent audits have disclosed significant findings that have an important effect on the CETA program. However, the CETA audit process has not achieved its full potential. Deficiencies include shortfalls in audit coverage, lack of aggressive action to resolve audit findings, and insufficient audit resources. In our opinion, these deficiencies have contributed significantly to the CETA program's vulnerability to fraud, waste, and abuse because CETA grantees lack the incentives to maintain strong systems of internal control that would be encouraged by an effective audit, followup, and disciplinary system. While recent Labor and congressional actions should improve certain aspects of the CETA audit function, we believe more needs to be done. Therefore, we recommend that the Secretary of Labor:

- Require the Office of the Inspector General to determine the amount of resources necessary to perform needed audits as soon as the Department's responsibility under the single audit concept becomes clear. Resources should include the Labor audit staff and the funds necessary to engage independent public accountants and State or local government auditors.

- Require headquarters and regional office staff to ensure that audits of subgrantees are performed when required and that they include an evaluation of internal controls.

AGENCY COMMENTS AND OUR EVALUATION

The Department concurred with both recommendations made in this chapter, has already taken some corrective action, and plans additional measures. For example, the Department now tracks

execution of scheduled audits of subgrantees through the formal performance assessment process. As recognized on page 23, the agency has also instituted audit residencies and unified audits to help identify and correct weaknesses at the subgrantee level.

The Department has agreed to reexamine its audit resource requirements under the grantee-procured single audit concept as soon as (1) additional information concerning these designations is available from the Office of Management and Budget and (2) a better picture is obtained of what the Department's responsibilities will be and what problems the audit process will encounter.

CHECKLIST OF INTERNAL CONTROL WEAKNESSES FOUND
DURING VULNERABILITY ASSESSMENT OF
THE CETA PROGRAM AND ADMINISTRATIVE ACTIVITIES OF LABOR

	Headquarters Labor--ETA	National programs grantee	Labor regional Office-- Boston	Prime sponsor #1	Subgrantee #1	Labor regional Office-- Chicago	Prime sponsor #2	Subgrantee #2	Labor regional Office--San Francisco	Prime sponsor #3	Subgrantee #3	Labor regional Office-- Seattle	Prime sponsor #4	Subgrantee #4
TOTALS														
Internal control weaknesses														
Disbursements														
Grants:														
Failure to monitor prime, subprime cash flow			X	X	X	X	X	X	X	X		X		
Failure to monitor internal control/ formal accounting procedures			X	X	X		X	X	X	X		X		
Failure to provide control over/ evaluate program effectiveness		X					X							
Payroll:														
Failure to provide control over payroll check distribution					X	X	X	X		X				X
Failure to segregate duties							X	X				X	X	X
Failure to write necessary procedures and assure that those already existing are followed													X	
Purchasing:														
Failure to segregate duties		X		X	X			X						
Failure to control and provide for purchase orders, invoices, receiving reports, or purchase requests														X
Failure to provide/ follow written procedures		X			X		X			X			X	X

<u>Internal control weaknesses</u>	<u>TOTALS</u>	<u>Headquarters Labor--ETA</u>	<u>National programs grantee</u>	<u>Labor regional office-- Boston</u>	<u>Prime sponsor #1</u>	<u>Subgrantee #1</u>	<u>Labor regional office-- Chicago</u>	<u>Prime sponsor #2</u>	<u>Subgrantee #2</u>	<u>Labor regional office--San Francisco</u>	<u>Prime sponsor #3</u>	<u>Subgrantee #3</u>	<u>Labor regional office-- Seattle</u>	<u>Prime sponsor #4</u>	<u>Subgrantee #4</u>
<u>Periodic tasks</u>															
<u>Property management inventory:</u>															
Failure to assign control numbers to items of furniture and equipment	1	X													
Failure to write necessary procedures on conducting inventories/maintaining records	8	X	X				X	X		X	X	X	X		
Failure to segregate duties	8	X	X		X	X		X			X	X		X	
Failure to conduct physical inventories	7	X						X	X		X	X	X	X	
Failure to maintain accurate and current property records	11	X	X	X	X	X	X			X	X	X	X	X	
Failure to report property transfers and thefts or investigate cause of loss	8	X			X	X	X			X	X	X	X		
<u>Financial reports:</u>															
Failure to review/monitor financial reports	8	X		X	X	X		X	X	X					X
Failure to provide/improve financial reporting	9	X					X	X	X	X	X	X	X		X
<u>Personnel:</u>															
Failure to control/monitor hiring procedures	6					X	X	X	X	X		X			
Failure to monitor CETA employees' work habits	2					X						X			
Failure to write/follow procedures for control of hiring personnel	1											X			

	TOTALS	Headquarters Labor--ETA	National programs grantee	Labor regional office-- Boston	Prime sponsor #1	Subgrantee #1	Labor regional office-- Chicago	Prime spnсор #2	Subgrantee #2	Labor regional office--San Francisco	Prime spnсор #3	Subgrantee #3	Labor regional office-- Seattle	Prime spnсор #4	Subgrantee #4
Internal control weaknesses															
Travel:															
Failure to segregate duties to review/require travel documentation	2	X							X						
Failure to secure outstanding and unresolved travel reimbursement amounts	4					X	X	X		X					
Failure to write/follow necessary procedures for use of travel funds	2	X					X								
Imprest funds:															
Failure to have adequate or current written procedures	1	X													
Failure to require proper documentation (vouchers)	2					X				X					
Failure to require proper documentation for fund replenishment	1	X													
Receipts															
Cash receipts:															
Failure to separate duties	3						X								
Failure to establish accounts receivable	5	X		X		X	X	X							
Failure to record cash receipts	2						X			X					
Totals	151	16	6	6	7	17	14	15	12	12	11	16	6	11	2

PRIOR GAO REPORTS DEALING
WITH THE COMPREHENSIVE
EMPLOYMENT AND TRAINING ACT PROGRAMS

"Administrative and Financial Management Weaknesses in the Office of Youth Opportunity Services of the D.C. Government," GGD-76-92, August 5, 1976.

"Payment Problems in the Summer Youth Employment Program in New York City," HRD-77-18, February 2, 1977.

"Employment Programs in Buffalo and Erie County Under the Comprehensive Employment and Training Act Can Be Improved," HRD-77-24, February 18, 1977.

"Property and Fiscal Management Problems at the Maryland Job Corps Center," HRD-77-36, May 13, 1977.

"Expenditure of Funds Under Federal Employment Training and Housing Programs in Buffalo, New York," HRD-78-101, May 1, 1978.

"Status of Improving Cleveland's Management of Its Employment and Training Programs," HRD-78-126, June 7, 1978.

"Poor Administration of the 1977 Summer Program for Economically Disadvantaged Youth in New York City," HRD-78-123, July 26, 1978.

"More Effective Action Is Needed on Auditors' Findings--Millions Can Be Collected Or Saved," FGMSD-79-3, October 25, 1978.

"Administrative Weaknesses in St. Louis' Comprehensive Employment and Training Act Program," HRD-79-15, March 2, 1979.

"Federal Civilian Audit Organizations Have Often Been Unsuccessful In Obtaining Additional Staff," FGMSD-79-43, July 27, 1979.

"More--And Better--Audits Needed of CETA Grant Recipients," FGMSD-81-1, November 6, 1980.

ADMINISTRATION OF
THE QUESTIONNAIRE

The 340-page pro forma questionnaire was administered at Labor headquarters, four regional offices, four prime sponsors, four subgrantees, and one national programs grantee. The questionnaire was divided into the following major categories:

- General information.
- Disbursements cycle.
- Receipts cycle.
- Procurement cycle.
- Time cycle.
- Administration and management.

Numerous subcategories included, but were not limited to, cash management, purchasing, inventory management, payroll, travel, financial reporting, and grants management. Within each subcategory a number of questions were designed to elicit information on whether internal control policies and procedures had been established and, if so, to determine the extent to which they had been effectively implemented.

The results of the questionnaire are shown in appendix I. In all, 30 major categories of weaknesses were identified; that is, each location reviewed has a potential for 30 weaknesses. In appendix I the column totals show the number of weaknesses found at each location. For example, Labor headquarters had 16 major weaknesses out of 30 (or 53 percent), whereas subgrantee number 4 had only 2 weaknesses (or 7 percent). The row totals indicate the number of locations at which a particular weakness was noted. The failure to maintain accurate and current property records occurred at 11 locations, whereas the failure to record cash receipts occurred at only two locations. In total, the potential existed for 420 Xs--which would denote every weakness at every location visited. We identified a total of 151 Xs (or 36 percent). Of the 14 locations reviewed, 4 (about one-third) had weaknesses in 50 percent or more of the 30 categories.

U.S. Department of LaborOffice of Inspector General
Washington, D.C. 20210

Reply to the Attention of:

FEB 20 1981

Gregory J. Ahart
Director
Human Resources Division
U.S. General Accounting Office
Washington, D.C. 20548

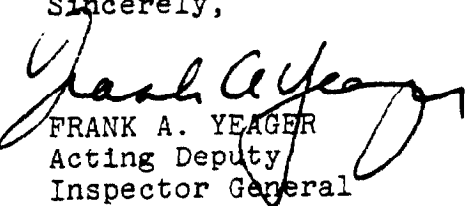
Dear Mr. Ahart:

This is in reply to your January 19 request for comments on the draft GAO report entitled "Weak Internal Controls at the Department of Labor and Selected CETA Grantees Make These Activities Vulnerable to Fraud, Waste, and Abuse."

The Department basically concurs with the recommendations contained in this report. Attached is a summary of actions taken or being taken to correct problems identified in the GAO review. Also attached are suggestions for clarification of specific sections of this report.

Thank you for giving us the opportunity for comment.

Sincerely,



FRANK A. YEAGER
Acting Deputy
Inspector General

Attachments

U. S. Department of Labor's Response to
The Draft General Accounting Office
Report Entitled --

"Weak Internal Controls at The Department
of Labor and Selected CETA Grantees
Make These Activities Vulnerable to
Fraud, Waste, and Abuse"

1. Recommendation: Headquarters and regional office staff and prime sponsors to aggressively enforce existing requirements that cash collections be safeguarded, recorded, and promptly deposited upon receipt.
2. Recommendation: Regional offices to establish and/or effectively implement controls over separation of duties for those employees handling CETA cash receipts from prime sponsors.
3. Recommendation: Labor headquarters, regional offices, and all grantees to thoroughly review vendor-submitted invoices and compare them with supporting documentation to determine whether they are legitimate or have already been paid.

Response: The Department concurs. With respect to the headquarters offices, significant actions have been taken since the GAO audit which should substantially improve the Department's compliance with Treasury and GAO requirements, as well as our own. Collection processing activities that were formerly centralized in the administrative agency national office location have been decentralized to each of Labor's component agency national office locations. This decentralization has resulted in more effective collection control and more timely deposits. We have also established a technical assistance/internal review group within the administrative agency. This group is responsible for identifying internal control and cash management deficiencies in the Department's regions and agency national office locations. Technical assistance is provided to correct these deficiencies. To date reviews have been performed in five regions and two agency national office locations.

The actions taken to improve controls over collections also apply to voucher examination processes. Decentralization of the work should provide for more effective supervision and greater familiarity of employees with the unique complexities of the work of each Labor agency. The technical assistance/internal review group will contribute to uniform application of good internal control procedures over disbursements.

With respect to the regional offices, the prime sponsors and grantees, detailed policy and procedures are being developed regarding repayments, refunds, payments, reobligations and related transactions. These policies and procedures will be published by April 1981. This issuance will emphasize and implement the recommendations cited by GAO regarding cash receipts and payments. ETA is planning a spot-check, follow-up effort to assure that the new procedures, once established, have been implemented.

4. Recommendation: The Department's Payment Services group to review disbursements to vendors who have previously received duplicate payments to determine whether more have occurred and, if so, take steps immediately to collect these duplicate payments.

Response: The Department concurs.

5. Recommendation: The Inspector General's office to examine the automated procurement system after it is fully operational to determine whether controls built into the system are adequate to protect against payment of duplicate invoices.

Response: The Department concurs. The Office of Inspector General has a series of reviews underway to evaluate various elements of the Department's procurement system and offices' practices. Our reviews include identification of existing internal controls and an evaluation of their effectiveness in preventing abuses and mismanagement. As our efforts proceed and the Department's automated procurement system becomes operational we will review the adequacy of this system's controls also.

6. Recommendation: The Department to seek competitive bids on proposed procurements and to evaluate the results of bidders' previous contractual efforts to determine whether they are capable of adequate performance. ^{1/}

Response: The Department concurs. Contracts should be awarded competitively to the fullest extent possible. However, the contract referenced on pages 13 of the draft report was awarded sole source as permitted by the FPR. Although the initial contract was not submitted to the DOL Procurement Review Board, under 41 CFR 29-3.210-50, the subsequent modification to add \$100,000 was submitted to that Board and was subsequently approved.

The justification for going sole source was that the contractor had the specialized experience essential to this procurement. That organization has extensive experience in working with American universities in the development of curriculum course models in the field of comparative manpower studies. It was felt that their combined experiences in this area uniquely qualified them to carry out the activities provided in this procurement.

7. Recommendation: That the payroll system include data on employee's outstanding travel advances so that advances can be liquidated promptly through deduction from wages.

Response: The Department concurs in part. We are planning to implement a travel advance reporting system where travel advance

^{1/}Based on the Department's comments, we have revised the wording of our recommendation.

balances are routinely reported on employees' earnings and leave statements. Actual recovery of travel advances would only be after prior notice to employees.

8. Recommendation: The Department's Comptroller to implement consistently the existing exit procedure for an employee terminating employment so that the office responsible for controlling travel advances must indicate that the employee has no outstanding advance.

Response: The Department concurs. We will emphasize to our agencies the need to promptly initiate existing separation clearance procedures. Timecard certifying officials have been directed to ensure that their payroll offices are notified of separating employees so that final salary payments may be held for employees with travel advance balances outstanding. Payroll offices have been instructed to hold terminal leave payments pending liquidation of travel advances.

9. Recommendation: Labor's Comptroller to promulgate and implement written procedures governing the operation and maintenance of imprest funds and that surprise audits of these funds be made periodically.

Response: The Department concurs. We are drafting procedures governing the operation and maintenance of our imprest funds. In the interim, our agencies have been directed to continue to follow procedures promulgated by the Treasury Department in its Manual of Procedures and Instructions for Cashiers Operating Under Executive Order No. 6166.

10. Recommendation: The Office of Inspector General to audit the regular and supplemental payroll systems to ensure that improvements have been made and to determine whether they provide adequate controls over payroll disbursements.

Response: The Department concurs. The office of Inspector General has included a follow-up review on the Department's payroll systems in its 1981 audit plans. We will review the controls over payroll disbursements and test the effectiveness of those controls in correcting payroll problems. With respect to the payroll systems, the Office of Inspector General has issued two reports one dated March 24, 1980 and the other dated January 26, 1981 on the Department of Labor's Integrated Payroll, Personnel System (IPPS). The first report was based on a review of all the Department's regional offices, and the National Office's controls over the Departmental computer center, the payroll personnel system, and the administrative office data processing. The second report covered the manual and automatic data processing controls for the Mine Safety and Health Administration's (MSHA) Payroll Operations, Lakewood, Colorado.

11. Recommendation: Headquarters and regional office property staff to (1) promptly enter newly purchased property into inventory records and into the general ledger system and to reconcile records periodically; (2) take physical inventories on a regular basis; (3) have segregation of duties to provide adequate checks and balances; and (4) attend training courses which will enhance their understanding of sound controls over property.

Response: The Department concurs. The property handbook and guidelines to operating agencies contain adequate controls for ensuring proper recording and inventorying of all property purchased with Departmental funds. Audits and appropriate oversight of the Property Management System will be continued to ensure proper implementation and application of established procedures.

12. Recommendation: Office of Inspector General reviews prime sponsor independent monitoring units to assure that (1) Employment and Training Administration regulations are followed and (2) they are properly staffed with personnel skilled in evaluating internal controls.

Response: The Department concurs. The Office of Inspector General will consider the need to review prime sponsor independent monitoring units after the U.S. General Accounting Office's current review of these activities is completed. The overall objective of the GAO review, as provided by the staff conducting the study, is to assess the prime sponsor independent monitoring units including the adequacy for funding, staffing and insuring the independence and objectivity of monitoring practices and methods. GAO plans call for a draft report on the review in November 1981. At that time, we will assess what additional review efforts the Office of Inspector General should undertake.

13. Recommendation: More aggressively impose sanctions upon grantees who have not corrected previously known management and internal control deficiencies.

Response: The Department concurs. In reviewing the matter of placing sanctions on prime sponsors and other recipients for deficiencies in program management, the Department balances its responsibility to ensure that services are continually available to benefit the CETA-eligible population of a local jurisdiction with

14. Recommendation: Take action to correct the following deficiencies:

- excessive cash balances;
- internal controls over CETA payroll disbursements;
- prime sponsor purchasing procedures;
- insufficient verification of eligibility of CETA participants; and
- weaknesses in internal controls over prime sponsor administrative activities.

Response: The Department concurs. The following are our comments with respect to each of the above.

Excessive cash balances

The Department agrees that excessive cash balances are a problem at the subgrantee level, due in part to overcompensating efforts of subgrantees, many of which are community-based organizations or organizations without substantial reserves, to ensure that Federal funds are on hand at all times to pay CETA bills, and in part to looseness in the procedures of prime sponsors in reviewing advance requests and reported expenditures to make certain that DOL regulations limiting cash balances to amounts required for immediate disbursements are complied with. Review of subgrantee cash balances and prime sponsor advance payment policies are required elements of prime sponsor and departmental auditing of CETA programs in the DOL CETA Audit Guide, to be issued in final form for use in the spring of 1981.

Also, during 1980, ETA developed a certification guide for the review of prime sponsor financial reporting and record-keeping systems, to be issued to ETA Regional Offices in March of 1981, which includes review of prime sponsor control of subgrantee cash balances. This certification guide will be administered to all prime sponsor jurisdictions during FY 1981-1982. Included in this definition of specifications for compliance monitoring and management control is a "Subrecipient/Contractor Control Register," which would accumulate all fiscal data concerning individual subgrantees and provide information on cash advances outstanding. Prime sponsors failing to meet minimum specifications for financial systems will not be certified until actions to correct deficiencies and weaknesses are implemented.

Prime sponsor responsiveness to required corrective action is one of the major criteria in rating sponsors in the Formal Performance Assessment for the fiscal year, and in considering prime sponsor grant applications for the succeeding fiscal year. Formal Performance Assessment ratings are issued publicly by the Department to prime sponsor chief elected officials; in recent years negative ratings have had a stronger impact on local program management and prime sponsors have generally been more forthcoming in responding to the Department's list of deficiencies rather than receive a poor assessment rating.

Insufficient verification of eligibility of CETA participant

The Department recognizes that this area of prime sponsor oversight is one of the keys to program integrity and the fair delivery of services to the CETA-eligible population, and the Department has done a substantial amount of work in this area in the CETA system. The Department recognizes, however, that given the large number of transactions involved (i.e., the large number of persons continually moving through temporary CETA programs) and the turnover in local program intake and eligibility staff, that this is an area where the Department should expect to maintain an ongoing field presence. There are no absolute solutions available to recurring problems in eligibility determination and verification, particularly since eligibility requirements vary among CETA titles.

Since May 1979, Chapter VI of DOL's Forms Preparation Handbook has detailed acceptable documentary evidence to be maintained, as a minimum, by prime sponsors as proof of eligibility verification in the CETA participant record. CETA regulations and this handbook also detail procedures for selecting the size of participants to be sampled for verification, and procedures to be followed in dealing with ineligibles. The Annual Formal Performance Assessment requires ETA field staff to cite evidence whether the prime sponsor has implemented a system for eligibility verification meeting the requirements of CETA regulations and the Forms Preparation Handbook. Under instructions for scoring assessment findings, a critical deficiency in a prime sponsor's eligibility verification system can result in a rating of "Serious Problems" for all the sponsor's programs. In FY 1980, a number of prime sponsors received poor ratings on this basis; these programs are now under mandatory corrective action plans.

The Department also included eligibility verification procedures in a certification guide on management information systems that was used in the field to further evaluate each sponsor's system during Fiscal Year 1980. Both the field assessment of operations and the certification review of prime sponsor systems have identified the need for further general training of CETA staffs in eligibility determination and verification. Accordingly, a technical assistance guide is planned for development later this year.

Weaknesses in internal controls over
prime sponsor administrative activities

The Department's approach to addressing the examples of weak controls raised by the GAO report is parallel to that being taken to address other program management problems. The requirements for maintaining inventories of unexpendable and non-expendable property and supplies are also laid out in the Department's July 1979 regulations. The aforementioned certification guide for prime sponsor financial reporting and recordkeeping will detail under specifications for the personal property register, recordkeeping and review procedures to enable prime sponsors to prevent excessive

Internal control over CETA payroll disbursements

Given the short-run difficulties of ensuring that all prime sponsor programs are audited on a periodic and timely basis, the Department agrees that there is a need for increased field monitoring in this area. For this reason, the Department is planning a separate and detailed treatment of participant compensation and recordkeeping in the planned revision during Fiscal Years 1981 and 1982 of the CETA Monitoring Handbook to reflect all major requirements of CETA Reauthorization. Regional Office use of this system, expanding on nationally-required field work related to the annual prime sponsor assessment, will be phased in during the next fiscal year. Also, the previously-mentioned Financial Management Information System certification guide includes specifications for a payroll journal system, comprising participant payroll cards, time sheets and payroll journals, and earnings statements.

Review of time, attendance and payroll has been a standard element of DOL regional monitoring since the days of pre-CETA categorical manpower programs, and problems in this area of management have been a staple of program audits. The Department agrees that periodic sampling and review of records during field monitoring is an effective prevention measure, particularly when coupled with regular and thorough audit. There is a definite need to balance the time spent in the field by Federal Representatives handling the continuous workload of CETA grant and administrative business with time spent in program monitoring, particularly since the number of prime sponsor compliance requirements grew substantially with CETA Reauthorization.

Prime sponsor purchasing procedures

As the report notes, each ETA Regional Office does have a designated property and procurement specialist, and given the broad number of administrative compliance issues under CETA, we do not feel that DOL has neglected reviewing this area of prime sponsor management. Recent departmental regulations, "Public Contracts and Property Management" (41 CFR Part 29-70, dated July 20, 1979) describe specifically property and procurement requirements. For the past two fiscal years the Department has included a determination whether prime sponsors have imposed fund and property control requirements per CETA regulations on subgrantees in the overall rating of prime sponsor management systems in the Annual Formal Performance Assessment. Also, the forthcoming financial management systems certification guide includes specifications for a personal property register, to enable a prime sponsor to control purchases of property and to maintain property accountability among its subgrantees.

Returning to the examples of problems cited in the report, however, the Department agrees that, as in other compliance areas, a continuous monitoring and audit presence in the field would help limit irregularities and the opportunity for abuse.

purchases and maintain supply and equipment inventories. Field monitoring has not, however, since CETA Reauthorization focused on technical details of the paper trail of prime sponsor supply and equipment procurement, or on compliance with departmental regulations governing travel expenditures. Problems in these areas noted in audit findings were brought into the Annual Performance Assessment process if as a result of an audit, a prime sponsor was required to take corrective action.

The Department is considering what the best treatment of these issues would be in the planned in-depth national monitoring system, to build up DOL's field oversight capability in this area as is needed.

It should also be noted that CETA independent monitoring units (IMU's) also act as a check on prime sponsor administrative activities and subgrant management. While the report identifies significant IMU problems, it must be remembered that the study was done in the early IMU implementation period. The Department has placed great emphasis on effective operation of IMU's through technical assistance and training and through thorough review and heavy weighting in the annual formal performance assessment.

15. Recommendation: Require the Office of Inspector General to make a determination of the amount of resources necessary to perform needed audits as soon as the Department's responsibility under the single audit concept becomes clear. Resources should include the Labor audit staff and the funds necessary to engage independent public accountants and State or Local Government auditors.

Response: The Department concurs. The Department of Labor received audit cognizant responsibilities for 100 of the 800 State departments and agencies assigned by OMB in October 1980. The Department has begun to assess the change in resource requirements brought about by these assignments. However, there still has been no preliminary designation of cognizant Federal agencies for audits of the approximately 60,000 units of local government and Indian tribal governments. Nor has there been any designation for non-profit organizations. Moreover, it is still too early to assess new and different problems the audit process may encounter as the Department begins to use grantee-procured audits under Attachment P to OMB Circular A-102.

The Department will reexamine its resource requirements under the grantee-procured single audit concept of Attachment P once (1) additional information concerning these designations is available from OMB and (2) a better picture is obtained of what the Department's responsibilities will be and what new and different problems the audit process will encounter.

CETA Prime Sponsor recipient audits accounted for 80 percent of all audits conducted by the Office of Inspector General during fiscal year 1980. The application of such a large portion of OIG's very limited audit resources to CETA Prime Sponsor audits resulted in falling even further behind in audits of other Departmental

programs and in a continuing problem of insufficient internal audit coverage. Therefore, the final assessment of audit resources needed must be balanced between CETA audits and evaluations of all programs and operations within the Department.

16. Recommendation: Require headquarters and regional office staff to ensure that audits of subgrantees are performed, when required, and that such audits include an evaluation of internal controls.

Response: The Department concurs. Prime sponsors are required to describe their auditing systems and process in their grant. With the early development of the national audit workplan for FY 1981, sponsors were able to plan more precisely than in the past on how to meet their specific audit requirements during the year. Execution of scheduled audits of subgrantees is now tracked through the formal performance assessment process. Implementation of audit plans for follow-up on subrecipients audit findings are key items in the financial management section of the assessment. Failure to comply may have an impact on grant approval for the subsequent year.

The Department has also instituted audit residencies and unified audits to help identify and correct weaknesses at the subgrantee level. The audit residency provides for the full time assignment of an audit team to a Prime Sponsor. The resident auditors review grantee and subgrantee operations on a current basis, identify problems or deficiencies early, and provide more timely and effective follow-up on corrective actions. In FY 1980, audit residencies were established at 15 of the larger CETA Prime Sponsors; additional residencies will be established in 1981.

The unified audit acknowledges the significant impact of the estimated 50,000 subgrantees and contractors on total CETA grant operations. It emphasizes a comprehensive examination of financial operations at all levels in one audit: Prime Sponsor, subgrantees and contractors. The audit of subgrantees is performed either by or under the operational control of the audit organization which conducts the audit of the Prime Sponsor. The audit of the Prime Sponsor and its subgrantees covers the same funding period and results in a comprehensive audit opinion of the entire operations of a Prime Sponsor.

OTHER COMMENTS

Additional information, corrections, and updated facts which should be included in the report are provided in the following comments. ^{1/}

Page 13

GAO Statements: Discussion on Department's contracts for curricula modules.

Response: Of the four curriculum modules which the contractor undertook to prepare under the contract, one was dropped by mutual agreement between the Department and the contractor. Of the three remaining modules, two were in final draft form and research had been completed on the third at the original expiration of the contract period. Of the two technical assistance manuals which the contractor undertook to prepare under the contract, one was in final draft form at the original expiration date of the contract period and the second had not been completed. With respect to the conference arranged by the contractor, it is not correct to say that it was "prepared primarily by ETA staff" but it is true that ETA staff was obliged to take a more active role than should have been necessary.

Pages 22 and 23

GAO Statement: Pertaining to the Federal representatives roles of identifying fiscal problems and resolving audits.

Response: We do not agree with the assessment and suggest that the statement be removed since it is presented without supporting documentation for a final conclusion. We think the two activities stated are compatible and appropriate since the grant officer and not the Federal representative is the final decision point on audit findings and determinations.

Page 36, Paragraph 3

GAO Statement: During this review, we found that 29 of the 460 CETA Prime Sponsors had never been audited.

Response: The 29 CETA Prime Sponsors which had not been audited as of December 1979 represent less than 3 percent of total CETA funding from FY 76 through FY 80. Twenty-six of these Prime Sponsors have been or now are being audited. The remaining three Prime Sponsors are scheduled to have audits started in March 1981.

Page 36, Paragraph 3

GAO Statement: "...audits of prime sponsors include no analysis of funds spent by subgrantees which is where the majority of funds are spent."

Response: Auditors have always been required by the CETA audit guide to analyze subgrantee audit reports and include the results of that analysis in the report on the Prime Sponsor. In some

^{1/}Page nos. have been changed to correspond to those in final report.

instances, disclaimers of opinion have been expressed in the Prime Sponsor audit report because of a lack of subgrantee audit coverage. Additional details on this matter have been set forth in our response to recommendation 16 discussed earlier.

Page 38, Paragraph 1

GAO Statement: At the time of our review, Labor reported a backlog of 810 unresolved CETA audits involving \$172.3 million in questioned expenditures.

Response: The statistics cited by GAO relate to all unresolved audits rather than just to those whose resolution is overdue.

The Department has placed increasing emphasis on the resolution of open audit findings. As of December 31, 1980, the CETA backlog (unresolved audit reports over 120 days old) had been reduced to 555 audits involving \$158.2 million in questioned costs.

Pages 38 and 39

GAO Statement: Our review of five grantee debts totaling \$120,000 disclosed that those expenditures had been disallowed...but had not been collected.

Response: The draft report does not accurately reflect the results of DOL's collection efforts on the five cases cited by GAO. A careful review of the five grantee debts analyzed in the draft report reveals that:

- Two of the audit determinations are under appeal by the grantees and thus are not yet subject to collection.
- One of the debts has been collected.
- One of the grantee debts, totaling \$71,615, has been elevated to the National Office for referral to GAO after numerous unsuccessful attempts to recover the disallowed costs.

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