

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D. C. 20548



FOR RELEASE ON DELIVERY
EXPECTED AT 9:30 A.M.
THURSDAY, JUNE 11, 1981

STATEMENT OF
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BEFORE THE SUBCOMMITTEE ON EMPLOYMENT
AND PRODUCTIVITY
COMMITTEE ON LABOR AND HUMAN RESOURCES
UNITED STATES SENATE

CONCERNING AUDITS OF THE DEPARTMENT OF LABOR'S
COMPREHENSIVE EMPLOYMENT AND TRAINING ACT (CETA) PROGRAM

Mr. Chairman and Members of the Committee:

We appear here today to discuss two of our reports; "Weak Internal Controls Make the Department of Labor and Selected CETA Grantees Vulnerable to Fraud, Waste and Abuse" (AFMD 81-46), and "More -- and Better -- Audits Needed of CETA Grant Recipients" (AFMD 81-1). With me today are Lawrence Sullivan and George Egan of my staff, and Maurice Moody of our Human Resources Division.

The first review I will discuss was performed to determine if Labor and its grantees are vulnerable to misuse and abuse of Government funds. This study concentrated on whether Labor has an adequate system of internal controls. Internal controls are the body of checks and balances which organizations set up to spread work out

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in such a way that one person or function checks on what another person or function does. These checks detect errors and make fraud and related acts more difficult. Good internal controls are the most effective deterrent to fraud, embezzlement, and related illegal acts. Good internal control by Labor and its grantees is extremely important because they annually handle about \$8 billion in CETA funds. As a result of this review we concluded that the Department and selected CETA grantees were vulnerable to fraud, waste, and abuse, because some essential internal controls were lacking.

Internal audit is or should be an important feature of any agency's system of internal controls. The second review I will talk about was performed to determine how the Department of Labor carries out its CETA audit responsibilities. We found that fewer than half the required audits had been performed. As part of the review, we evaluated the quality of the audits that had been performed at 13 prime sponsors. We found that these audits we tested did not always conform to quality standards established by the Comptroller General and required by Labor and OMB regulations.

Now I would like to discuss the results of both assignments in some detail. I will start with our vulnerability assessment of the Department of Labor and selected CETA grantees contained in our report issued in March of this year. In making this vulnerability assessment, we were interested in (1) determining whether Labor had a system of internal controls to adequately protect against

fraud, waste, and abuse and (2) how CETA grantees provided for protection of Federal funds and assets. In this regard, we did not concentrate on determining how much fraud has occurred, but instead focused on how such illegal acts could occur as a result of internal control weaknesses. We were interested in identifying areas where Labor is vulnerable to abuse or error.

In making this assessment, work was performed at Labor headquarters, Labor regional offices, four CETA prime sponsors, four subgrantees, and a national program grantee. We also reviewed numerous reports pertaining to Labor's investigations of alleged fraud and waste in the CETA program. I will now summarize some of the internal control weaknesses we noted during this review and further describe what has or can happen as a result of these weaknesses. In reviewing the administrative activities of Labor and its regional offices, which support CETA as well as all other Labor programs we found that:

--Unspent grant funds, money owed Labor from disallowed grantee expenditures, and overpayments to vendors and employees are not (1) collected promptly; (2) properly safeguarded upon receipt; and (3) promptly deposited in U. S. Treasury accounts when received.

--Procurement invoices were approved for payment and later paid without purchase orders or other supporting documentation to ensure validity or without checking to see if the bill had already been paid. As a result, duplicate payments have occurred.

--Employee travel advances were not being sufficiently reviewed to verify the amount and determine the need for repayment. Such reviews are important, especially to ensure that employees who quit their jobs have repaid their advances.

--Property purchased with Federal funds at Labor headquarters was not being physically inventoried annually by persons other than those responsible for maintaining property records.

Regarding the CETA program specifically, we found internal controls to be unacceptably weak at the grantees reviewed despite numerous Labor regulations and publications which provide internal control guidance and requirements. These conditions make the grantees vulnerable to illegal acts and unintentional errors and reinforce the importance of conducting regular audits of their operations to assure that proper internal controls are in place over CETA funds. For example we found:

--Prime sponsors were not reviewing subgrantee requests for cash or subgrantee cash balances and as a result excessive amounts of CETA money were being retained by some subgrantees. For example, one subgrantee, over the six-month period we reviewed, had from four to seven times more cash than it was permitted (from \$372,000 to \$728,890); another had excessive balances

ranging from \$78,000 to \$263,000 over the three month period we checked.

- One of these subgrantees committed \$25,000 of its CETA money to purchase 1,024 water meters for installation in private homes. Officials justified this purchase by explaining that it was training 12 CETA participants to install and read the meters. The purchase was not detected by the prime sponsor because it did not have an internal control procedure requiring that purchases over a certain dollar limit be approved.
- This same subgrantee used \$329,000 of its excess CETA cash to finance its city payroll for one week. Over the ensuing five-week period, the CETA payroll was paid by the city thereby liquidating this "debt."
- Two prime sponsors and three subgrantees we visited did not sufficiently verify CETA participant eligibility data provided on applications for enrollment into the CETA program. This creates a high risk that ineligible persons are being trained and paid at the expense of needy people.

- The four subgrantees we visited failed to establish sound internal controls over CETA payroll disbursements allowing erroneous and excessive wages be paid to some participants.
- Two grantees did not systematically approve, process, validate, pay, and document travel transactions. For example, one subgrantee did not always require travel orders or travel vouchers but paid some employees fixed monthly travel allowances without requiring proof that the travel actually took place. The lack of documentation makes it impossible to audit these disbursements and to establish their validity.
- Grantees did not always conduct annual physical inventories of property or investigate noted discrepancies. Furthermore, they frequently removed items from inventory records without explanation and sometimes expensed equipment rather than inventorying it. At one prime sponsor, a physical inventory revealed 20 items missing from its inventory. The prime sponsor did not investigate the loss. Among the missing items were five typewriters, one dictating machine, a pocket calculator, and a duplicating machine--all having value for personal use.

These examples typify the kinds of weaknesses we found in payroll, purchasing, travel, cash management, property management and participant eligibility at nearly every location visited during our vulnerability assessment. When considered in total this led us to conclude that the CETA program is vulnerable to fraud, waste, and abuse, and that internal controls at the Department of Labor and at CETA grantees need to be improved. We believe that Labor must ensure that strong internal controls exist throughout its organization and with its grantees.

The final portion of the vulnerability assessment concerned the audit function. The CETA Amendments of 1978 require the Secretary of Labor to audit or arrange for audit of grantees and their subgrantees to ensure that funds are spent for the purposes intended. When audits do disclose illegal, erroneous or questionable expenditures it is important that any misspent funds be recovered in a timely manner. In an October 25, 1978, report to Congress entitled "More Effective Action is Needed on Auditors' Findings -- Millions Can be Collected or Saved" (FGMSD-79-3), we reported lengthy delays in resolving audit findings at many Federal agencies including Labor.

In January 1981, we issued a follow-on report entitled, "Disappointing Progress In Improving Systems For Resolving Billions In Audit Findings" (AFMD-81-27, January 23, 1981). The report showed that while some progress had been made, the absence of effective audit resolution processes still is a serious

problem. For instance, at the Department of Labor, nearly 1200 reports had unresolved audit findings with a total monetary value of \$294 million.

As part of our vulnerability assessment, we checked to see whether Labor has made progress in terms of reducing the length of time to resolve audit findings involving questioned costs. While some improvements have been made, there are still considerable delays. During the review, we found that considerable delays in resolving audits were still occurring. As of December 31, 1980, there were 555 unresolved CETA audits involving \$158.2 million in questioned costs.

We also noted that in some cases audits disclosed numerous internal control weaknesses at grantees which went uncorrected after the audit even though the grantee promised to implement the auditor's recommendations for improvement. If audits are to be effective, Labor must assure that the grantees correct any deficiencies identified in an audit.

Our vulnerability review covered only a limited number of prime sponsors and subgrantees for the period May through October 1979. However, some of the problems we noted in our vulnerability assessment are also occurring at other prime sponsors and subgrantees. In an on-going review of CETA funds at the local level, GAO is finding problems in cash management, equipment management, procurement, and in payroll. The auditors plan to brief both the majority and minority staffs of this subcommittee during July concerning their follow-up review.

Next I would like to discuss our review of CETA audits. The results of this review are contained in our report issued in November 1980, "More--And Better--Audits Needed of CETA Grant Recipients."

Audit is a basic control the Government has to prevent unauthorized expenditures by its grantees. When effectively used, the audit function can provide management with information on how to make the program operations more economical and efficient and to keep funds from being spent improperly. Labor has benefitted from its audits of CETA grant recipients. Some of its recent audits have disclosed significant findings which are having an important effect on the program. However, Labor's record in accomplishing audits of the prime sponsors has varied significantly around the country. As I mentioned earlier, at the time of our review, fewer than half the required audits had been performed. Furthermore, our limited sample of those audits indicated a need for improving their quality. Finally, Labor did not have an effective system for controlling and summarizing subgrantee audits. The principal reason for Labor's inability to accomplish more audits was a lack of audit resources.

CETA regulations in existence at the time of our review required the Secretary of Labor to audit or arrange for audits of prime sponsors annually but not less than once every two

years. If these regulations had been complied with, every original CETA prime sponsor and subsponsor would have been audited at least three times by now. We found, however, that there were still prime sponsors that had not been audited for the first time as of March 31, 1980. During the period covered by our review, over \$26 billion was spent by about 460 prime sponsors and thousands of subgrantees. Only 320 of the prime sponsors had been audited as of then. In one of Labor's ten geographic regions, only 24 of 105 prime sponsors had been audited during the period covered by this review. The 81 prime sponsors which were not audited had expended \$2.4 billion. (At the time of our review audits had been started on 33 of the 81 prime sponsors.)

At a second regional office, which is responsible for auditing 45 prime sponsors, we found that as of September 1978, 22 of the prime sponsors had not been audited since inception of the CETA program in 1974. Furthermore, seven of the audits which were performed were limited scope audits which, according to Labor officials, do not satisfy the audit requirements of the CETA regulations. In terms of expenditures audited, this means that about \$1.36 billion of the \$1.7 billion granted to the prime sponsors had not been audited at the prime sponsor level.

Since the time of our review, Labor reports completing an additional 111 prime sponsor audits nationwide during the year ending September 30, 1979. This brings the total prime sponsors

audited to 431. However, as previously stated all prime sponsors should have been audited at least three times by now.

The most serious case we found involved an audit of a 25-month period and \$30 million of CETA funds. We found that:

- the grantee records did not support the reported expenditures, yet this was not disclosed in the audit report;
- the auditors were unable to reconcile the grantee's cash receipts with the final cash balance. Rather than report the discrepancy, the auditors inserted a \$448,226 "plug" amount to obtain a balance;
- the auditors made a \$576,000 error in computing the amount of administrative costs to be allocated to the grantee. The workpaper where the error was made showed no indication of supervisory review;
- the auditors did not render an adverse opinion on the grantee's financial statements although they admitted to us that an adverse opinion was warranted.

We reviewed some of the audits accomplished under the CETA program to evaluate the quality and thoroughness of the

work performed. We found that audits of prime sponsors (1) were not always timely, (2) did not address management responsibilities over subgrants and contracts, and (3) did not have all the the characteristics of a quality audit.

We reviewed Labor's audit of one prime sponsor that received \$28.4 million of CETA funds over a 1 1/2 year period. Of this amount \$27.7 million was transferred to its subgrantees. Thus Labor's audit covered only about \$692,000 of administrative expenses and was void of any analysis of the \$27.7 million administered by subgrantees, where the job training was provided and the public service jobs were being performed.

When the original CETA legislation was passed in December 1973, Labor had 144 professional auditors. By June 1974, when the first increment of CETA funds reached prime sponsors, the professional audit staff had been reduced to 106 positions. In fiscal 1975, the director of the internal audit staff requested 30 additional positions, but five audit positions were added from reallocations within the Department.

By the end of fiscal 1976 when the first two-year audit period was ending, requests for more staff never got past Labor's own budget review process. The staff level remained at 111 until fiscal 1977 when the audit staff requested 26 more positions. Again, Labor disallowed the request. However, a supplemental request of 20 additional positions was submitted

later that year and approved by the Department, the OMB and the Congress. One position was designated for direct audit support and 19 were added to the staff as auditors.

In fiscal 1978, an additional 29 positions were requested by the audit staff. The Department requested 20 positions which were approved by OMB and Congress. However, all 20 positions were allocated to the newly established Office of Special Investigations, which later absorbed the audit group and subsequently became the Office of Inspector General. In addition, 6 positions were transferred out of audit as a result of decisions within the Department leaving 124 auditor positions as of July 1979. In responding to our draft report, Labor stated that the Office of Audits now has 183 authorized professional positions.

This concludes my statement and I will try to answer any questions you may have.