

12770  
112351

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



FOR RELEASE ON DELIVERY  
EXPECTED AT 10:00 A.M.  
TUESDAY, MAY 20, 1980

112351

STATEMENT OF  
GEORGE EGAN, ASSOCIATE DIRECTOR  
FINANCIAL AND GENERAL MANAGEMENT STUDIES DIVISION  
BEFORE THE SUBCOMMITTEE ON  
MANPOWER AND HOUSING  
COMMITTEE ON GOVERNMENT OPERATIONS  
HOUSE OF REPRESENTATIVES  
CONCERNING [DEPARTMENT OF LABOR AUDITS OF COMPREHENSIVE  
EMPLOYMENT AND TRAINING ACT (CETA) GRANTEE]

Madam Chairwoman and Members of the Committee:

We are pleased to be with you today to discuss the results to date of two reviews which involve the Department of Labor and selected CETA grantees. With me today are Robert Raspen, Gregory Ulans, and Stephen Backhus of the Financial and General Management Studies Division.

The first review I will discuss was performed to determine how the Department of Labor carries out its CETA audit responsibilities. As part of that review, we evaluated the quality of the audits that had been performed at 13 prime sponsors. During this review we found that billions of dollars of CETA funds have not been audited. Furthermore, we found that the audits

010726

we tested were not always in conformance with Comptroller General audit standards.

When the preliminary results of this review showed that many CETA grantees had not been audited, we decided to do a vulnerability assessment of Labor and its grantees. The purpose of this latter review was 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. As you know, good internal controls are the most effective deterrent to fraud, embezzlement, and related illegal acts. Internal controls are the body of checks and balances which organizations set up to spread work out 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 control by Labor is extremely important because the agency and its grantees annually handle about \$10.6 billion in CETA funds. As a result of this review, we concluded that the CETA program is more vulnerable to fraud, abuse, and error than it should be because some essential internal controls are lacking at all levels of the CETA organization. As an attachment to my statement are examples of what has happened in the CETA program as a result of weak internal controls.

Now I would like to discuss the results of both assignments in some detail. I will start with our review of Labor's audit coverage of CETA funds.

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 operations of the program more economical and efficient as well as being the basic mechanism 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. Overall, fewer than half the required audits have been performed. Furthermore, our limited sample of those audits indicates a need for improving their quality. Finally, Labor has not had an effective system for controlling and summarizing subgrantee audits. The principal reason for Labor's inability to accomplish more audits has been a lack of audit resources.

#### AUDIT COVERAGE

CETA regulations in existence at the time of our review required the Secretary of Labor to audit or arrange for audits of grantees, subgrantees, and contractors 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 twice by now. We found, however, that there were still prime sponsors that had not been audited for the first time as of September 30, 1979.

Between December 1973 and October 1978, 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 September 30, 1978.

In one of Labor's 10 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 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. 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. Of the funds passed on to subsponsors, only about \$300 million had been audited at the subgrantee level during fiscal years 1977 and 1978. Inadequate records prevented us from going back before 1977. Thus, with the records available to us, over \$1 billion of \$1.7 billion in CETA expenditures had not been audited in this region.

Since that 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 twice by now.

#### AUDIT QUALITY

We reviewed some of the audits that have been accomplished under the CETA program to evaluate the quality and thoroughness of the work performed. We found that audits of prime sponsors (1) are obviously not always timely, (2) do not address management responsibilities over subgrants and contracts, and (3) do not have all 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 subsponsors. Thus Labor's audit covered only \$694,000 of administrative expenses and was void of any analysis of the \$27.7 million administered by subgrantees.

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.

#### AUDIT RESOURCES

Labor has had difficulty controlling the whole audit process largely because the Inspector General's Office has not had adequate resources and the record indicates that Department of Labor has historically not shown a commitment to the audit process.

When the original CETA legislation was passed in December 1973, Labor had 144 professional auditors but 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. However, reallocations within the Department added only 5 audit positions.

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. Initially, the Department took no action

on this 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. These 20 positions were assigned 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 auditors as of July 1979.

In fiscal 1980 the Office of Inspector General has been authorized by Congress to increase its staff by 132 positions. The audit function has been designated by the Inspector General to receive 59 of these positions which have been largely dedicated to CETA audits.

#### VULNERABILITY AUDIT

I would now like to discuss the preliminary results of our second audit. This effort is a vulnerability assessment of Labor headquarters and selected regional offices and grantees. In making this vulnerability assessment, we were particularly interested in determining whether Labor as a whole had an adequate system of internal controls at all levels of its organization that would provide adequate protection against

fraud, theft and abuse of Federal funds and assets purchased with Federal funds. 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, four regional offices, five CETA prime sponsors, and four subgrantees. We also reviewed numerous reports pertaining to Labor's investigations of alleged fraud and waste in the CETA program and as I mentioned earlier, have included examples of several findings as an attachment to my statement. 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:

--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. For example, one vendor who submitted duplicate invoices received duplicate payments totalling \$6,100. This vendor

is currently under investigation by Labor. Furthermore, departmental records indicated that 148 duplicate checks have been returned by vendors and contractors between January 1976 and May 1979 totaling over \$198,000. It is possible that Labor has issued many other duplicate checks that have been retained by vendors such as the one I just described.

✓ --Employee travel advances were not being sufficiently reviewed. Such reviews are important, especially to ensure that employees who quit their jobs have repaid their advances. Our limited test of travel advances dating back to 1976 revealed that more than 200 Labor employees have left the agency without paying advances that were outstanding at the time of their departure. These advances totalled more than \$70,000. As our test was limited it is likely that many more similar instances have occurred.

✓ --Payroll corrections and the resulting supplemental payroll were not being sufficiently reviewed at the time of our audit. As a result, one Labor employee, over 18 pay periods, fraudulently obtained \$13,000 by adding his and other names and amounts of money to supplemental payroll registers. The individual was eventually caught by Treasury. Labor, upon learning this, changed and corrected its supplemental payroll system and has taken action against the individuals involved.

✓ --Labor's failure to seek competitive bids resulted in the award of a 12 month, sole source contract for \$99,985 of CETA Title III funds (subsequently extended and increased an additional \$100,000) to a contractor whose qualifications and expertise were questionable at best. The returns on this procurement were described by Labor officials as being of inferior quality; of only limited value; incomplete; and late.

✓ --Equipment purchased with Federal funds at Labor headquarters was not being physically inventoried annually by persons other than those responsible for maintaining property records. Eight of 29 items we selected for review from property records, such as calculators and typewriters, could not be found. Labor officials assured us that the missing items would be investigated.

Regarding the CETA program specifically, we found internal controls to be unacceptably weak at grantees despite numerous Labor regulations and publications which provide internal control guidance and requirements. These conditions make the grantees very vulnerable to illegal acts and unintentional errors and reinforces 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 was being maintained by subgrantees. For example, one subgrantee, over the 6-month period we reviewed, had from 4 to 7 times more cash than it was permitted (from \$372,500 to \$728,890); another had excessive balances ranging from \$78,000 to \$263,000 over the 3-month period we checked. And a third received a cash advance of \$1.2 million which represented enough money to last 2 months.

✓ --One of these subgrantees committed \$25,000 of its CETA money to purchase 1,024 water meters for installation in private homes. Officials attempted to justify 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. We were successful in stopping the use of CETA money to purchase 500 of these meters (\$12,475) because they had not been delivered or paid for at the time of our review. However, the remaining 524 water meters (\$13,086) were delivered and paid for in 1978.

✓ --This same subgrantee used \$329,000 of its excess CETA cash to finance its city payroll for one week. Over the ensuing 5-week period, the CETA payroll was paid by the city thereby liquidating this "debt." An erroneous

withdrawal of funds from the CETA account, caused by insufficient supervisory reviews of withdrawals was the reason for this transaction.

↙--None of the prime sponsors or sub-grantees we visited sufficiently verified CETA participant eligibility data provided on applications for enrollment into the CETA program. This creates an exceptionally high risk that ineligible persons are being trained and paid at the expense of needy people. In fact, one subgrantee did no verification at all. Furthermore, CETA participant files often did not contain sufficient information to determine eligibility. For example 30 percent of 114 applications reviewed at one subgrantee did not contain any or sufficient information on the applicants previous income to determine if they were eligible. The importance of verifying eligibility data is evidenced by a Labor study which estimates that as many as 10 percent of CETA participants nationwide do not qualify for the program.

↙--CETA participant's time and attendance reports were often not reviewed by supervisors or payroll personnel at several of the prime sponsors and sub-grantees we visited. This resulted in (1) regularly paying one CETA employee for 80 hours of work each pay period when this person worked only 60 hours--overpayments totaling \$1,445 over 10 months; (2) participants being

paid for 8-hour work days when they worked only half days; (3) paying a suspended employee for 35 hours of work never performed; and (4) inaccurate leave balances.

--Several grantees did not systematically approve, process, validate, pay, and record travel transactions. For example, one grantee did not always require travel orders or travel vouchers but rather paid fixed monthly travel allowances of \$5 to \$25 to employees. 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. For example, one prime sponsor, upon conducting a physical inventory, discovered 19 items valued at \$3,260 missing from its inventory but did not investigate the loss. Among the missing items were four typewriters, one dictating machine, a pocket calculator, and a duplicating machine--all having personal uses.

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 very vulnerable to fraud, abuse, and error and that internal controls at all levels of the CETA program need to be improved. We believe that Labor must see that strong internal controls exist throughout its organizations.

The final area I would like to discuss, concerns the audit function. I mentioned earlier that auditing is a basic control the Government has to prevent unauthorized expenditures by its grantees. 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. 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. As of September 30, 1979, for example, Labor reported that it had a total of 810 unresolved CETA audits involving \$172.3 million. Of these 524 reports (65 percent) were one year or older and involved \$78.3 million (45 percent) of the total unresolved 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.

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

OTHER ABUSES AND ERRORS

- 38 duplicate travel advances resulting from inadequate review procedures at Labor, were discovered in our limited test totaling about \$14,000.
- A 16mm movie projector valued at \$383 was missing from one regional office's inventory. No record of a property transfer existed and the projector is presumed lost or stolen.
- One imprest fund at ETA headquarters received 2 duplicate checks totaling \$5,526 as "replenishment" for the fund. Reimbursement vouchers were not cancelled when checks were received to replenish the fund.
- Another imprest fund at Labor was "short" some \$8,000. This fund was being audited by Labor auditors at the time of our review.
- Cash collections were not deposited promptly at one Labor regional office. For example, it took 5 days to deposit a \$135,863 check and 6 days for a \$68,560 check although Labor procedures call for daily deposits of receipts totaling \$1,000 or more.
- A relative of one subgrantee Director who was ineligible for the CETA program, was placed in the program and paid \$9,204 in wages over a 1-year period.
- A CETA participant received pay for 8 months totaling \$5,800 after termination from the program.

- Participant required to pay \$1,300 to a sub-grantee for enrollment in the CETA program.
- Payroll advance of \$5,500 was given to a sub-grantee when its biweekly payroll averaged \$1,300.
- Prime sponsor permitted a sub-grantee to lease 182 vehicles (e.g., dump trucks, vans, buses, trucks, pickups, roller) with CETA funds without obtaining required approval from Labor. The annual lease cost was \$353,725.
- \$2,495 used for personal expenses (motel, liquor, clothing, shoes, etc.) and categorized as employee morale expense.
- \$2,850 used to pay for a wedding and reception on the Queen Mary and categorized as employee morale expense.
- \$4,734 for the lease of an Audi and a Porsche (10 months).
- \$1,485 for employee Christmas gift certificates and categorized as employee morale expense.
- One Executive Director used \$15,000 to provide loans to friends.
- Chief timekeeper stole or forged several CETA participant checks totaling \$1,294.
- Supervisor falsified time sheets of CETA participants who received payments totaling \$1,001 for hours not worked.
- Participant obtained \$100 as a security deposit on an apartment never rented.
- Over \$100,000 of CETA funds was used to purchase land and erect a house and to pay a consultant who designed the house.

- Unsupported CETA participant payroll disbursements of \$204,158 in CETA funds were made by one person preparing and distributing payroll.
- \$964 payroll overpayment caused by falsified time sheets which weren't reviewed by a supervisor.
- A CETA supervisor submitted fictitious employment forms and payroll documents totaling about \$24,000. Reviews were not made and paychecks were sent to the supervisor.
- Chief timekeeper falsified time and attendance reports of CETA participants totaling \$3,019.
- Creation of three "ghost" employees by a prime sponsor program developer involving \$12,264.
- Hiring ineligible participants and paying them a total of \$33,551.
- Subgrantee requiring CETA participants to pay \$75 each per month for office supplies totaling \$4,500.
- Hired ineligible participants by falsifying records and claiming reimbursement of \$7,899.
- \$48,758 paid to a subcontractor for training not provided, and for participant salaries not earned.
- Paying two regular employees a total of \$300 with CETA grant funds.
- Requiring a participant to give a kickback of \$150 as a condition for job placement.
- Creation of "ghost" employees totaling \$1,784.

ATTACHMENT 1

- \$14,000 in property was missing (and presumably stolen) but not investigated by either the subgrantee or the prime sponsor.
- Over \$500 of equipment was missing from one such grantee's inventory including a jig saw and a skill saw valued at \$55 and \$67 respectively. Investigation into their disappearance were not performed, nor were the items reported as missing.
- During a visit to one subgrantee, we saw a CETA supervisor watching a card game taking place among other city employees, while 9 CETA participants were laboring over their assigned jobs.
- A contractor used \$53,000 of CETA Title I funds for payment of wages to non-CETA employees engaged in construction of new buildings not used for CETA programs.
- Five employees of a prime sponsor were paid \$26,543 in total for which there was no evidence of any work performed.
- The Administrative Assistant of one prime sponsor's Director was paid \$12,506 with CETA funds although she was not eligible for the CETA program.
- Excess cash balances at two subgrantees totaling \$2,750 and \$1,500 respectively. In both cases these amounts represented almost one half of average monthly expenditures.

NOTICE OF HEARING

COMMITTEE : Subcommittee on Manpower and Housing  
House Committee on Government Operations

SUBJECT : DOL's system for auditing CETA prime sponsors

DATE : Tuesday, May 20, 1980

TIME : 10:00 a.m.

ROOM : 2203 - Rayburn House Office Building

Membership : Representative Cardiss Collins (D-Ill.), Chairwoman

Majority : Representatives Collins, Conyers, Jr. (Mich.), Maguire (N.J.),  
Atkinson (Pa.), Drinan (Mass.), and Matsui (Calif.)

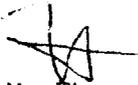
Minority : Representatives Grisham, (Calif.), Butler (Va.), and Snowe (Maine)

Principal staff : Joseph Luman, Staff Director

GAO witness : George Egan, Associate Director, Financial and General Management  
Studies Division

Accompanied by : Stephen Backhus, Management Analyst, FGMSD  
Robert Raspen, Auditor, FGMSD  
Greg Ulans, Auditor, FGMSD  
M. Thomas Hagenstad, Legislative Adviser, Office of Congressional  
Relations

NO CAR AVAILABLE

  
M. Thomas Hagenstad  
Legislative Adviser