STATE OF LOUISIANA

Department of Labor
State of Louisiana
Baton Rouge, Louisiana

March 17, 2004

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DEPARTMENT OF LABOR
STATE OF LOUISIANA
Baton Rouge, Louisiana

Management Letter
Dated February 26, 2004

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

March 17, 2004

OFFICE OF
LEGISLATIVE AUDITOR
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February 26, 2004

DEPARTMENT OF LABOR
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2003, we considered the Department of Labor's internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal Report of the Department of Labor is not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on the Department of Labor, dated January 27, 2003, for the year ended June 30, 2002, we reported findings relating to Louisiana employers overcharged for the Workforce Development Training Account, improper management of the Employment Security Administration Account, lost interest income, insufficient control policies and procedures for human resources and payroll processes, and noncompliance with state movable property regulations. The findings concerning improper management of the Employment Security Administration Account, lost interest income, and insufficient control policies and procedures for human resources and payroll processes have been resolved by management. The remaining findings have not been resolved and are addressed again in this report.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2003.

Louisiana Employers Overcharged for the Workforce Development Training Account

For the second consecutive year, the Department of Labor did not have adequate procedures to ensure that the calculation of the employer assessments is performed in accordance with Louisiana laws. The Workforce Development Training Account (WDTA) was established by Louisiana Revised Statute (R.S.) 23:1514(A) to fund customized training for the benefit of businesses operating in Louisiana and the payment of expenses incurred for the administration of the WDTA. The funding is derived from employer payroll tax contributions in incremental amounts that are directly related to the balance in the state's unemployment insurance trust fund. R.S. 23:1553(B)(10) states that only the amount necessary to bring the balance of unobligated funds to $50 million shall be charged in any calendar year. R.S. 23:1553(C) states that the amount employers are to be assessed for the next calendar year shall be computed as of June 30 of each year.

For calendar year 2003, the department overcharged employers approximately $50 million in payroll tax contributions. No assessment should have been made for calendar year 2003 since the amount of unobligated funds exceeded the $50 million maximum. However, the department assessed employers $50 million. We computed the 2002 and 2003 unobligated funds as follows:

Cash balance on hand at June 30, 2002	$113,716,027
Less obligations for contracts approved as of June 30, 2002	(35,086,296)
Unobligated funds at June 30, 2002	$78,629,731
Cash balance on hand at June 30, 2003	$144,274,456
Less obligations for contracts approved as of June 30, 2003	(47,732,063)
Unobligated funds at June 30, 2003	$96,542,393

The increase in cash from $113,716,027 to $144,274,456 in a span of one year is an indication that excess employer assessments are occurring. In addition, the department intends to assess employers $38.1 million for calendar year 2004 even though the unobligated balance as of June 30, 2003, is in excess of the $50 million maximum.

These conditions occurred because the department, when determining the employers' tax assessments, did not consider all cash on hand at June 30 and considered not only approved contracts but also applications that have been approved by the governor as obligations.

The department should establish adequate written procedures to ensure that the calculation of the employer assessments for WDTA considers the cash balance on hand at June 30 and only approved contracts. Management did not agree with our methodology for computing the amount of unobligated funds (see Appendix A, pages 1-2).

Additional Comments: In its response, management lists three areas in which our analysis is fundamentally flawed. We believe that our analysis is correct since:

1. The administrative and collection costs of approximately $4.3 million were not calculated and paid until after June 30, 2003.

2. There is no reason to subtract first quarter collections that have been budgeted as of June 30, 2003.

3. Applications amounting to approximately $18.7 million had been approved by the governor as of June 30, 2003. However, we did not include these applications in our calculation since they do not represent valid obligations until contracts have been written, signed by all parties, and approved by the Office of Contractual Review as required by R.S. 39:1502.

In the five years of the WDTA fund's existence, collections have totaled approximately $192.5 million while the department has disbursed approximately $48.2 million. Of this amount, $20.5 million and $17.9 million were disbursed during fiscal years 2003 and 2002, respectively.

Deficient Memorandums of Understanding

The Department of Labor has executed Memorandums of Understanding (MOUs) that do not meet Workforce Investment Act (WIA) regulations (20 CFR 662.300). Entities (One-stop partners) responsible for administering separate workforce investment, educational, and other human resource programs coordinate to create a seamless system of service delivery that addresses the needs of employers and job seekers. The Code of Federal Regulations requires that an MOU be developed and executed between the One-stop partners relating to the operation of the One-stop delivery system in the local area. The MOU must specify the services to be provided through the One-stop delivery system and the funding of the services and operating costs of the system. The Code [20 CFR 662.100(d)] states that the One-stop delivery system must have at least

one comprehensive center and may also have affiliated sites that can provide one or more partners' programs, services, and activities at each site. Furthermore, the Code (20 CFR 662.270) states that each partner must contribute a fair share of the operating costs of the One-stop delivery system that is proportionate to its use.

A review of eight of 18 MOUs disclosed the following:

- For all eight MOUs, there is no indication that the Secretary of the Department of Labor reviewed or approved these documents. Field supervisors for the department signed the MOUs that committed the department to the terms of the MOUs as a One-stop partner.

- For all eight MOUs, the federal programs that will share the costs of the One-stop delivery system were not specifically identified. Instead, the MOUs provide only the name of each partner. Each program must be specifically identified since one agency may operate several federal programs. The federal programs we were able to identify include the State Administrative Matching Grants for Food Stamp Program (CFDA 10.561), Employment Service (17.207), Unemployment Insurance (17.225), Trade Adjustment Assistance - Workers (17.245), Welfare-to-Work Grants to States and Localities (17.253), WIA Adult Program (17.258), WIA Dislocated Workers (17.260), Disabled Veterans' Outreach Program (DVOP) (17.801), Local Veterans' Employment Representative Program (17.804), Temporary Assistance for Needy Families (93.558), and Community Services Block Grant (93.569).

- For all eight MOUs, the department's fiscal section was unaware of the existence of the MOUs. Depending on the MOUs' terms, the fiscal section could be responsible for billing other partners for certain shared costs or for paying another partner for the department's share of the costs.

- For six MOUs (75%), the MOUs did not list all of the comprehensive centers or affiliated sites. The MOUs included only the One-stop comprehensive center. In addition, the MOUs did not include a physical address or other method for specifically identifying the centers or sites for which costs will be shared.

- For four MOUs (50%), the One-stop systems had not billed all partners for shared costs. In addition, three One-stops had billed the department for shared costs totaling $55,120 for fiscal years 2001, 2002, and 2003; however, as of May 15, 2003, the department had not paid these bills.

- For three MOUs (38%), the rental and utility payments for the related One-stop delivery systems could not be compared to the MOU to ascertain if the costs shared for common areas and utilities were included in the cost allocation process. The three One-stop systems had separate rent and utility agreements with the partners.

- For two MOUs (25%), program partners have not been billed for their share of the One-stop system's operating costs. One system had not billed the department for $140,794.

The Department of Labor failed to ensure that MOUs met the requirements of the WIA regulations by adequately reviewing the MOUs before signing or ensuring that amendments containing the required information were made to the MOUs. Also, the department failed to ensure that it complied with the terms of the MOUs. As a result, some federal programs that are paying the operating costs of the One-stop delivery systems appear to be to paying an unfair share of the costs.

Management of the department should establish adequate procedures to ensure that MOUs contain the required information and that it complies with the terms of the MOUs. Management did not concur that the fiscal section was unaware of the MOUs and that partners were not billed for shared costs. Management partially concurred with the finding regarding rental and utility payments (see Appendix A, pages 3-5).

Additional Comments: Although the MOUs tested were signed in calendar years 2001 or 2002, the fiscal section did not receive copies until April 17, 2003. In addition, if the fiscal section had been provided timely with copies of the MOUs, the fiscal section would have realized that the department had not been billed for its share of the One-stop system's operating costs.

Finally, because there were separate rent and utility agreements with the participating agencies, we could not determine whether these costs were included in the cost allocation process. The MOUs, or other referenced addendums, should be structured so that it can be determined whether such costs are included.

Inaccurate and Incomplete Annual Fiscal Report

The Department of Labor did not submit an accurate and complete Annual Fiscal Report (AFR) for the Office of Workforce Development to the Division of Administration by the prescribed due date. R.S. 39:79 authorizes the commissioner of administration to establish the format for obtaining each agency's financial information. The Office of Statewide Reporting and Accounting Policy (OSRAP) designed an AFR to obtain this information and requires a signed affidavit from each agency that the financial statements present fairly the financial information of the agency. OSRAP uses the department's AFR during its compilation of the state's annual financial report. The

completed AFR was due to OSRAP on August 29, 2003. Good internal control includes establishing formal written procedures for compiling financial information included in the AFR and developing an adequate review process to ensure that financial statements are accurately prepared and timely submitted.

The department's AFR for the Office of Workforce Development that was submitted on August 29, 2003, included the following errors:

1. Schedule 8 (Schedule of Expenditures of Federal Awards) was incomplete because it did not contain the required reconciliation of Schedule 8 disbursements to the federal revenue on Schedule 1 (Schedule of Revenues and Expenditures - Budgetary Comparison). The reconciliation was received September 18, 2003, or 20 days after the due date.

2. Schedule 8-3 (Summary Schedule of Prior Audit Findings) was not accurate because we found that each of the 12 items on Schedule 8-3 contained errors such as omission of program names, federal grantor agency names, and CFDA numbers, including incorrect CFDA numbers, and reporting incorrect finding names.

3. Schedule 8-4 (Schedule of Non-State Agency/University Subrecipients of Major Federal Programs) was not accurate because the department submitted a copy of the schedule for Fiscal Year Ended June 30, 2002, instead of the current fiscal year. In addition, the revised Schedule 8-4 was inaccurate because it included expenditures for only 11 months.

4. Schedule 8-5 (Schedule of State Agency/University Subrecipients of all Federal Programs) was not accurate because it included expenditures for only 11 months.

5. The Operating and Capital Grants note was left blank. The department's accounting records showed that total operating grants and contributions were approximately $144 million.

6. The Pass-Through Grants note was left blank. The department's accounting records showed that the department had total pass-through grants of approximately $76 million. The Workforce Investment Act Program and the Community Services Block Grant Program had, respectively, approximately $62 million and $14 million in pass-through grants.

7. The Cooperative Endeavors note reported contracts totaling $61,330,166. Based on departmental records, the amount reported was overstated by $10,431,474 because it included $9,148,404 for contracts that had ended before June 30, 2003, and $1,282,070 for contracts that started after June 30, 2003.

8. The Judgments, Claims, and Similar Contingencies note reported disallowed costs of $771,575. This amount was understated by $5,653,495 because letters from the U.S. Department of Labor indicated that the amount of disallowed costs for programs under its authority was $6,425,070.

9. The Accounts Payable note reported payables totaling $23,068,146. This amount was overstated by $3,039,789 because the department included some payables twice.

Management has not placed sufficient emphasis on ensuring that the AFR is properly prepared and reviewed for errors or omissions. Failure to submit an accurate and timely AFR to OSRAP could delay the compilation and issuance of the state's Comprehensive Annual Financial Report (CAFR) and result in a misstatement of the state's CAFR.

Management should develop procedures to include written instructions and high-level supervisory review of financial information and note disclosures to detect and correct errors before submitting information to OSRAP. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 6-7).

Noncompliance With State's Movable Property Regulations

For the second consecutive year, the Department of Labor did not maintain adequate control over movable property as prescribed by law. Louisiana Administrative Code Title 34 Part VII Section 307 (A) requires all acquisitions to be tagged and information forwarded to the Louisiana Property Assistance Agency (LPAA) within 60 days after receipt of those items. In addition, efforts must be made to locate all movable property for which there are no explanations for their disappearance.

During the examination of the department's 4,933 movable property items, which are valued at $17,135,784, the following deficiencies were noted:

- In its Certification of Annual Property Inventory submitted on February 18, 2003, the department reported that it was unable to locate movable property valued at $60,513 in the current year. This amount includes 15 personal computers valued at $31,658. Also, the two computers and a

printer that were assigned to the previous Secretary of Labor were included in the unlocated property. In addition, the department reported that movable property valued at $313,361 was still unlocated from the previous three years. Included in this amount were approximately 100 personal computers valued at $205,318.

- Of the 60 movable property items selected from the movable property listing for testing, two could not be located. The two items were a personal computer and a printer that are valued at $3,216.

- Of the approximately $1 million of movable property acquisitions tested, 31 of 113 items (27%) purchased during the year were not reported timely to LPAA. These items, valued at $41,894, were reported to the LPAA between 70 and 240 days after receipt by the department. In addition, two items costing $2,814 could not be located and 19 items costing $23,425 were not properly tagged.

During the follow-up to the prior year movable property finding, the following were noted:

- The two movable property items reported as unlocated in the prior year remained unlocated. The two items are personal computers valued at $5,743.

- Of the 12 movable property items reported as not tagged in the prior year, four items were still not tagged. These four items are valued at $4,748.

Although the department has policies and procedures that contain many elements of a good internal control system, these procedures are not followed uniformly. Failure to update movable property records in a timely manner increases the risk that movable property is not accurately recorded, assets are not properly safeguarded against loss arising from unauthorized use, and the department is subjected to noncompliance with state laws and regulations.

The department should comply with laws and regulations and its internal policies and procedures regarding its movable property and should ensure its property manager notifies LPAA of acquisitions within the required time period. In addition, the department should ensure that all property is tagged and that effort is made to account for all movable property. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 8).

Unallowable Membership Dues

During the fiscal year ended June 30, 2003, the Department of Labor paid a total of $5,665 for membership dues in 32 chambers of commerce for various department employees. Louisiana Attorney General (A.G.) Opinion 92-204 states that political subdivisions of the state cannot purchase membership in a Chamber of Commerce for employees unless the purpose and the authority for the expenditure are sanctioned by law. When there is not a statutory duty fulfilled by membership in the Chamber of Commerce, the expenditure would be viewed as a donation and a violation of Article VII, Section 14 of the Louisiana Constitution of 1974.

The department was unaware that these memberships, in the absence of statutory duty, were considered a constitutional violation by the Attorney General.

Management of the department should develop and implement procedures to ensure that payments for membership dues in chambers of commerce are discontinued. Management did not concur with the finding stating that these dues are allowable under federal program regulations and that management will obtain an A.G. opinion on this issue (see Appendix A, pages 9-10).

Additional Comments: The Attorney General recently opined in A.G. Opinion 04-0005 that the use of federal funds in accordance with federal standards or guidelines does not violate the Louisiana Constitution since the funds received from the federal government are funds of the United States. We believe the opinion does not fully consider the various provisions of the United States Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. Circular A-87 establishes the principles for determining the allowable costs incurred by state, local, and Indian tribal governments under grants, cost reimbursement contracts, and other agreements with the federal government. OMB Circular A-87 states in its general principles that for costs to be allowable the costs must be authorized or ***not prohibited by state laws or regulations.*** Contrary to the 04-0005 opinion, the Attorney General has previously opined that payment by a public body for memberships to the Chamber of Commerce is prohibited by the Louisiana Constitution (A.G. Opinion 92-204). It appears then that these payments are also unallowable under federal standards and guidelines set forth in OMB Circular A-87.

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the department should be considered in reaching decisions on courses of action. Findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of the department and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Grover C. Austin, CPA
First Assistant Legislative Auditor

JES:STD:THC:ss

[DOL03]

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations

LOUISIANA WORKS
DEPARTMENT OF LABOR

M.J. "Mike" Foster, Jr.
Governor

Dawn Romero Watson
Secretary

OFFICE OF THE SECRETARY

November 14, 2002

Mr. James Stevens, CPA
Senior Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Stevens:

In response to the notice of your reportable audit finding of Louisiana Employers Overcharged for Workforce Development Training Account, we have reviewed the finding and disagree with the conclusion.

For the second consecutive year, the Legislative Auditor's legal analysis of Chapter 11 of Title 23 of the Louisiana Revised Statutes is fundamentally flawed. Specifically, the auditor misinterprets the law regarding the calculation of the social charge assessment of the state unemployment tax attributable to the Workforce Development Training Account. As in the previous year, the auditor errs in trying to relate cash balances to the social charge calculation in three fundamental areas: (1) Costs associated with expenses for the program; (2) Current year collections; and, (3) Applications approved by the Governor.

The first error is in the failure to acknowledge that there will be administrative expenses associated with the program. The program provides that no more than ten percent of the program costs may be administrative. One of the largest administrative expenses is the thirteenth month adjustment for collection. Incumbent Worker Training Program (IWTP) funds are collected as part of the State Unemployment Tax Act taxes. Funding for administration of the assessment and collection of all SUTA taxes comes from the United States Department of Labor (USDOL). USDOL allows the generation and collection of the IWTP funds through the system provided that an adjustment is made in the thirteenth month to reimburse for costs associated with this state initiative. The LDOL-USDOL negotiated cost allocation for the reimbursement is a percentage of the taxes collected. That figure cannot be calculated until the fourth quarter collections are finalized and therefore will not appear in a June 30th bank balance. This adjustment should be accounted for in calculating the assessment for the subsequent year. Also, administrative costs associated with obligating and monitoring grants, processing invoices and promoting the program need to be accounted for. The charts do not recognize this.

The second error by the auditor is a result of logistics, i.e. including the current year's first quarter collections into the formula to determine the assessment. The deadline for obligation of dollars associated with the taxes paid on wages paid in calendar year 2002, is June 30, 2003. Adjustments based on the over-collections, interest, de-obligations, etc. impact the assessment for taxes on wages to be paid in calendar year 2004. Logically, there will always be a year in flux (e.g. 2003), while data

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from the past year (e.g. 2002) is being considered for determination of assessment for the upcoming year (e.g. 2004). The bank statement on the account for the end of June 2003 will reflect first quarter collections for taxes paid on wages paid in 2003. It is not possible to obligate first quarter collections before June 30th of that year as they are not due in the department until April 30th . In addition, R.S. 23:1514 provides that the money shall not be obligated until collected and some time will be spent getting tax contributions from the approximately 96,000 different employers deposited and into the system. Finally, the authority to obligate the 2003 collections resides in the budget beginning July 1st. Again, this is not recognized in the charts.

The third fundamental error by the auditor results from not considering applications approved by the Governor as "obligations" for the purpose of assessment calculations. Immediately following the approval of an application by the Governor, the LDOL sends a letter of commitment to both the employer and the training provider. The department considers "obligation", as that term is used in R.S. 23:1553, for the purpose of calculating tax rates for the next calendar year, as applications approved by the Governor and on which commitment letters were sent. An IWTP application is a thorough description of the training project signed off on by all parties. It is the substance of the application to which boilerplate is added to for the contract that is eventually sent to the Office of Contractual Review. Any Governor approved application that does not materialize into a contract is accounted for as a de-obligation for purposes of the next year's assessment. While approval of the application may not be binding as an obligation of the state according to Title 39, the law does not prohibit its consideration for calculation of the social charge.

As indicated in last year's response, basic decisions were made when the program was implemented so that those employees working the program, from assessment to collections to obligations to expenditures, could understand one another and work along common definitions. It was decided that funding would be tracked relating it to the year in which the tax liability occurred. The assessment is on wages paid in the calendar year. It is due in our office at the end of the month following the end of the quarter. It takes about a quarter for all collections to be keyed into the system.

The department has a legal obligation to those parties in which it entered cooperative endeavors to honor invoices consistent with the terms of the agreement. As long as there is an outstanding obligation, the cash balance is accounted for. If there is not an obligation and "cut off" dates are past, that cash amount has been reduced from the next year's assessment.

As a result of last year's audit, the informal process when calculating the social charge of accounting for actual collections generated, interest earned, any obligations and de-obligations has been formalized.

If additional information is needed, please contact myself or Mrs. Ida Roberts in Unemployment Insurance, Experience Rating at (225) 342-1383.

Sincerely,

Dawn Romero Watson

LOUISIANA WORKS
DEPARTMENT OF LABOR

M.J. "Mike" Foster, Jr.
Governor

Dawn Romero Watson
Secretary

OFFICE OF THE SECRETARY

January 9, 2004

Mr. Grover C. Austin, CPA
First Assistant Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
1600 North Third Street
P.O. Box 94397
Baton Rouge, LA 70804

Dear Mr. Austin:

Please accept this as our written response to your November 5, 2003 letter regarding the ineffective monitoring of Memorandums of Understanding (MOUs). While the Department concurs in the logic of the auditor's recommendations, the Department strongly urges the Auditor to reconsider characterizing the findings as "administrative findings" instead of "reportable audit findings" since none of the specifics cited can be found as specifically required by federal law or rule.

Appropriate cost allocation though MOUs in a One Stop environment has been a challenge in the vast majority of states. In fact, Congress has considered, as part of the WIA reauthorization legislation, provisions authorizing Governors to mandate costs on all mandatory partners. Further, as noted on the attached email (Attachment A2), Training Registration Form (A3) and Agenda (A4), the U.S. Department of Labor (USDOL) recognizes the problems inherent in developing a system where costs are shared by various agencies through multiple funding streams. To assist the states and local areas in addressing this problem, the training session noted above is being provided by USDOL in New Orleans at the end of January in an ongoing nationwide effort to implement the One-Stop system.

In addressing this issue, this Department has established procedures to ensure that the MOUs contain the required elements per WIA regulations and has continued to monitor this process quarterly through developed staff procedures. (See attachment A) This process was discussed with staff in coordination meetings held in July, August and September of 2003. The WIA Program Coordinator and the Director of Field Operations for the benefit of field staff and Local Workforce Investment Area Partners conducted MOU Development Meetings statewide. (See Attachment B)

- Finding: There is no indication that the Secretary of the Department of Labor has reviewed or approved the MOUs.

  Management Response: Management concurs with exception.

  Although clearly prudent, there is no requirement in the Workforce Investment Act or the accompanying Regulations requiring the Secretary of Labor to review or approve the MOUs.

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The signatory sheet is being revised and a draft is attached that will require review by the Appointing Authority, the Undersecretary, and the Secretary.
(See Attachment C)

- Fiscal Section was unaware of existence of MOUs.

  Management Response: Management does not concur.

  Although clearly necessary, this is not required by the Act or regulations. A copy of each MOU and cost allocation plan was provided to and signed for by Fiscal on April 17, 2003 (Attachment E). Any updates to MOUs and cost allocation plans will be sent to Fiscal in the future.

- The MOUs signed by each partner contained the participating agency's name, but not the federal program(s) each operated.

  Management's Response: Management concurs with exception.

  This is not required by the Act or regulations. The partner agencies are identified and required signatures for each MOU are included, the funding streams operated by each partner are not listed. An attachment to the MOUs will be created to identify such.

- 75% of the MOUs reviewed failed to list all comprehensive centers or affiliated sites

  Management's Response: Management concurs with exception.

  The Act requires only one comprehensive center in each LWIA. An MOU must be completed for each site. In an effort to meet the requirements of WIA to have a comprehensive One-Stop operating in each area, the State elected to designate one comprehensive One-Stop in each area initially and concentrate on developing the MOUs for those sites first for greatest impact. The MOUs for satellite sites are under development.

- Lack of billing by One-Stop administrators of shared costs and lack of payment by LDOL of shared cost.

  Management's Response: Management concurs with exception.

  One-Stop administrators billed the agency, and those invoices were submitted for payment utilizing the agency's form 761 process. In a letter dated 08-07-03, the Fiscal unit returned to the Director of Field Operations several 761s for payment of these invoices. The letter explained that Fiscal would no longer process payment in this manner, as they could not reconcile them against the MOUs. A Cost Allocation Plan Review Guide, checklist and forms have been developed to facilitate reconciliation between MOUs and invoicing. A timeline outlining the efforts to resolve this issue is included. (See Attachment D, F, and G).

- MOUs did not define common areas like rent and utilities.

  Management's Response: Management concurs in part.

  It cannot be determined if the MOUs cited in this finding are incomplete or if the costs were settled through prior agreements, which may indicate shared costs. In some instances, there are leases and/or agreements pre-dating the MOU, which specify how costs such as rent and utilities will be divided among the partners. Detail concerning space, common areas, use and utilities should be included in the cost allocation plan, which provides detail to the MOU. The cost allocation plan for each One-Stop is an addendum to each MOU. This document may be adjusted or corrected without requiring a modification to the MOU. (Paragraph 2 on page 29639 of Federal Register Vol. 66 No. 105; May 31, 2001 states "regulations ...do not require the inclusion of a budget in the local MOU.") The CAPs and the budgets for each center are included for the LWIAs cited as of April 2003. All MOUs will be reviewed for completeness.

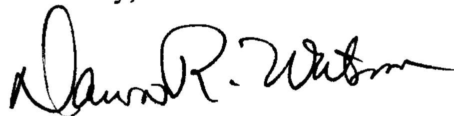
- Participating agencies have not been billed for their share of the One Stop delivery system's operating costs, nor has the Department been billed for it's share of the One Stop delivery system's operating costs.

  Management's Response: Management does not concur.

  It cannot be determined if the One-Stop systems cited in this finding did or did not invoice partners as this department is not the lead (billing agency) in each One-Stop, In some cases partners may be providing in-kind or equal services and space in a separate location to offset any such costs. Each MOU specifies who will perform the invoicing of the partners. It is sometimes the lead agency and at other times another partner. As pointed out in the response to the fifth bullet point of the audit, some systems did submit invoices to the Department for our share of the costs and we are in the process of finalizing the payment processing procedures. All MOUs will be reviewed and reciprocal billing addressed.

Thank you for the assistance your staff continues to provide us.

Sincerely,



Dawn Romero Watson
Secretary

c: Sujuan Williams Boutté, Assistant Secretary, OWD
Joseph Bryant, Undersecretary, OMF

LOUISIANA WORKS

DEPARTMENT OF LABOR

M.J. "Mike" Foster, Jr.
Governor

Dawn Romero Watson
Secretary

OFFICE OF THE SECRETARY

November 14, 2003

Mr. Gover C. Austin, CPA
First Assistant Legislative Auditor
P. O. Box 94397
Baton Rouge, Louisiana 70804

Dear Mr. Austin:

The following is a response to the audit finding "Inaccurate and Incomplete Annual Fiscal Report" as presented by the Legislative Auditor.

The Department concurs with the finding and has initiated immediate corrective action.

Inaccurate and Incomplete Annual Fiscal Report

The Department of Labor has had some managerial and staff assignment changes since the previous Annual Fiscal Report. This resulted in some parts of the report being prepared by individuals who did not have previous experience in compiling the data.

This situation culminated in the AFR being completed and assembled without adequate time for managerial staff to review and proof the information. Therefore some of the information was incomplete or inaccurate. More specifically:

1. The Reconciliation of Schedule 8 to Schedule 1 was overlooked. Later the reconciliation was completed and it balanced.

2. The Schedule 8-3 summaries were corrected and are now in electronic files so that they can be generated easily for next year's AFR.

3. Schedule 8-4 was prepared for the year ended June 2003, but the 2002 schedule was submitted in error. The fact that only 11 months' expenditures were included is attributable to the fact that there was a new manager in the grants section and he did not realize that he needed to pick up the 13th period expenditures from YE 6/30/02.

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4. See #3.

5. The omission of the Operating and Capital Grants note was an oversight.

6. The omission of the Pass-Through Grants note was an oversight.

7. The contracts in question are the obligations of the Incumbent Worker Training Program. The contracts that expired on or before June 30 were not removed because the contracts were yet to be closed out with final invoices. With regard to the contracts that did not start until after June 30, the program considers an obligation to exist when an application is approved by the Governor.

8. The note on Judgments, Claims, and Similar Contingencies was understated because the Fiscal Unit had not received a final determination from the USDOL requiring potential repayment of costs from the Year 1999 and 2000 audits. The Fiscal Unit had only received an initial determination on questioned costs for those years.

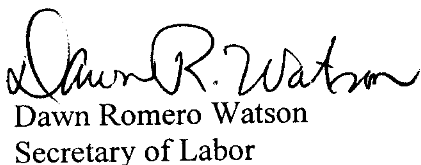
9. In a rush to submit a report by the August deadline, the Fiscal Unit was given a list of additional payables to be included in the AFR and was not aware that these amounts were duplicates that had already been accounted for.

All identified reports were corrected and resubmitted by September 18, 2003. Discussions have already occurred between the Fiscal Director and the manager of the Reporting and Control Section of the Fiscal Unit regarding the need to complete projects of this nature in sufficient time to allow the Director or other managerial staff time to proof the information.

The Department is establishing written procedures to ensure the timely and accurate preparation of financial information in the future.

If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,



Dawn Romero Watson
Secretary of Labor

DRW/WK

LOUISIANA WORKS
DEPARTMENT OF LABOR

M.J. "Mike" Foster, Jr.
Governor

Dawn Romero Watson
Secretary

October 21, 2003

OFFICE OF THE SECRETARY

Mr. Grover C. Austin, CPA
First Assistant Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804

Dear Mr. Austin:

The following is a response to the audit finding "Noncompliance with State Movable Property Regulations" as presented by the Legislative Auditor.

The Department concurs with the finding and has initiated immediate corrective action.

Timeliness of Reporting to LPAA
We have modified the procedure for communicating the requisition and receipt of taggable movable property to include an independent tickler file system that incorporates the online receiving module of ISIS. This procedure reduces the reliance on field personnel to notify the unit upon receipt of taggable property and provides the Administrative Services Division unit with estimates on delivery time. Of the 31 items not reported timely to LPAA, 19 were from a single purchase requisition that was not properly "received" in the ISIS system. These items have since been entered into the system and tagged. The property control manager personally traveled to each location to ensure the identification tags were in place. Property control personnel have since been trained to use alternate screens in ISIS to verify receipt of goods.

The other twelve items listed as not reported timely were in fact entered into the LDOL property control system and submitted to LPAA via tape in a timely fashion. A computer glitch resulted in certain items failing to transfer properly from the tape to the LPAA system without appearing on the exception report. These items have been identified and added to the LPAA system. The change to the new Protégé property control application has eliminated the need to maintain two property control systems and will eliminate further occurrences of this sort.

While this finding is factually correct, we do not think it reflects routine failure to follow procedures. Rather, the finding identifies that confusion arose on a single requisition, and that the state's decision to scrap an antiquated computer system was warranted. We should have identified the discrepancies between the two property control databases, however. The Administrative Manager will sample the property control unit's processing of acquisitions on a monthly basis to further reduce the opportunity for error.

Unlocated Property
Since the latest certification, property in the amount of $40,760 has been located. Efforts to locate the remaining unlocated items continue. It bears mentioning that the amount of unlocated property reported during the annual inventory has decreased substantially over the last four years. Currently, over 98% of the agency's movable property is accounted for.

This Department is committed to continuous improvement in our property control efforts. Should you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

Dawn R. Watson
Secretary

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DEPARTMENT OF LABOR

M.J. "Mike" Foster, Jr.
Governor

Dawn Romero Watson
Secretary

OFFICE OF THE SECRETARY

December 19, 2003

Mrs. Sandra Duchamp, CPA
Audit Manager
P.O. Box 94397
Baton Rouge, LA 70804-9397

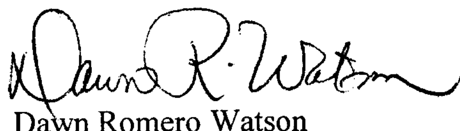
Dear Mr. Stevens:

In response to the notice of your reportable audit finding of Unallowable Membership Dues, we have reviewed the finding and disagree with the conclusion.

As part of the Department's efforts in improving it services to employers and job seekers, the Department has encouraged local office personnel to become a member and active in their local chamber of commerce. These memberships have been funded with federal Wagner-Peyser dollars. This is consistent and allowable under OMB Circular No. A-87. (See relevant section attached.)

At your request, the Department will be seeking an Attorney General's Opinion on this issue. The Department will not renew any memberships until the issue is settled.

Sincerely,



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27. **Lobbying**. The cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost. Lobbying with respect to certain grants, contracts, cooperative agreements, and loans shall be governed by the common rule, "New Restrictions on Lobbying" published at 55 FR 6736 (February 26, 1990), including definitions, and the Office of Management and Budget "Government-wide Guidance for New Restrictions on Lobbying" and notices published at 54 FR 52306 (December 20, 1989), 55 FR 24540 (June 15, 1990), and 57 FR 1772 (January 15, 1992), respectively.

28. **Maintenance, operations, and repairs**. Unless prohibited by law, the cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, necessary maintenance, normal repairs and alterations, and the like are allowable to the extent that they: (1) keep property (including Federal property, unless otherwise provided for) in an efficient operating condition, (2) do not add to the permanent value of property or appreciably prolong its intended life, and (3) are not otherwise included in rental or other charges for space. Costs which add to the permanent value of property or appreciably prolong its intended life shall be treated as capital expenditures (see sections 15 and 19).

29. **Materials and supplies**. The cost of materials and supplies is allowable. Purchases should be charged at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received. Withdrawals from general stores or stockrooms should be charged at cost under any recognized method of pricing, consistently applied. Incoming transportation charges are a proper part of materials and supply costs.

30. **Memberships, subscriptions, and professional activities.**

a. Costs of the governmental unit's memberships in business, technical, and professional organizations are allowable.

b. Costs of the governmental unit's subscriptions to business, professional, and technical periodicals are allowable.

c. Costs of meetings and conferences where the primary purpose is the dissemination of technical information, including meals, transportation, rental of meeting facilities, and other incidental costs are allowable.

d. Costs of membership in civic and community, social organizations are allowable as a direct cost with the approval of the Federal awarding agency.

e. Costs of membership in organizations substantially engaged in lobbying are unallowable.

31. **Motor pools**. The costs of a service organization which provides automobiles to user governmental units at a mileage or fixed rate and/or provides vehicle maintenance, inspection, and repair services are allowable.