1969

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Pat Loconto

Richard A. Levine

Charles Becherer

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New Tools for the Department of Labor

by

Pat Loconto, Richard Levine, and Charles Becherer
Two years ago Congress labeled the U.S. Department of Labor one of the worst procrastinators in the government and publicly accused it of dragging its feet in getting started on a much-needed modernization of its accounting systems.*

A year later this same department was again called before Congress—but this time as an example to other agencies of what could be accomplished in a short time, and as an inspiration to the many "doubting Thomases" who continued to insinuate that it just couldn't be done.

What had happened in between?

Motivated by the criticism, the Department of Labor began a concerted effort to develop new accounting systems. This effort represented the first time a Federal department had undertaken a department-wide approach to the modernization of its administrative accounting and information system instead of the more traditional segmented bureau approach.

Recognizing the enormity of the challenge and, at the same time, facing the age-old problem of a critical shortage of qualified internal staff, the department decided to seek outside contractor assistance in its effort to improve its financial management. In 1967 Touche Ross was awarded a contract to supply some of this necessary assistance.

The United States Department of Labor, although relatively small in comparison to some other Federal cabinet departments, maintains a significant role in the operation of the domestic policies of the country. The influence and responsibilities of the Labor Department extend to manpower training programs; employment programs; unemployment insurance administration; regulation of wage and hour policies; regulation of fair labor practices; research, compilation, and dissemination of statistical economic and labor data; and mediation of labor conflicts affecting national interests.

These programs are administered by an organization that extends from Washington, D.C. to every significant city in the United States, and consists of about 10,000 Federal employees based in Washington, in ten regional office cities and many area or branch office cities throughout the country. These employees are supplemented by about 64,000 state employees who are based in state and local offices (funded by Federal grants) and comprise the Employment Security System.

Much legislation has served as the basis for the creation of the Employment Security System. This system consists of state agencies that have been designated to cooperate with the Secretary of Labor in the execution of the public employment service and the Federal unemployment insurance programs.

Agencies affiliated with the Employment Security System operate in the 50 states, the District of Columbia, Puerto Rico, Guam and the Virgin Islands. These 54 affiliated agencies operate over 2,100 local offices.

To be eligible for Federal funds appropriated for administration of the employment service program, each state must enact laws designating an agency to cooperate with the Secretary of Labor in the execution of such programs. The affiliated state employment security agencies receive guidance from the Department of Labor in the planning and execution of the employment service programs, manpower oriented programs and unemployment insurance programs.

THE CHALLENGE

The Employment Security System, although recognized as a group of individual state agencies designated to cooperate with the Secretary of Labor, is not defined by strong organization lines depicting responsibilities and authority. Although the operations of the individual agencies are primarily funded by Federal grants, the agencies nevertheless fall within the organizational structure, authority, and constraints of 54 different jurisdictions. Each state government recognizes that in exchange for Federal funding it must cooperate with the Department of Labor. However, this "cooperation" is neither defined in writing, nor has it effectively been tested in court. Consequently, over the years, there has developed a delicate Federal-state relationship in which it has never been entirely clear where each party's authority began or ended. At the same time, however, each has realized that it cannot carry out its programs without the effective cooperation of the other.

Recognizing this delicate Federal-state relationship, Elmer Staats, Comptroller General of the United States, said: "... a good accounting system can be designed only with the knowledge of the role which it will play in improving management's decisions." He felt that the designer needed to work closely with the operating managers so that the accounting system would serve the needs of each management level and not become an unnecessary expense, or possibly an irritant, to management.

Consequently, the challenge was to design an improved accounting system which would be sensitive to the different operating environments in each of the 50 states, and, at the same time, satisfy the requirements

*Taken from Congressional Record.
of the Department of Labor, the General Accounting Office, the Bureau of the Budget and the Congress. The systems design required an approach sufficiently flexible to conform to the varying computer equipment as well as the organizational, legal, and volume constraints of the states. Finally, the new system had to be implemented in three model state agencies to assure its flexibility and to mirror the myriad problems which were sure to be encountered when the system was extended to the remainder of the states and other participating jurisdictions.

THE DESIGN AND IMPLEMENTATION TEAM

The major portion of the contract awarded Touche Ross required the design, development and implementation of a complete accounting system for the State Employment Security System. The contemplated system was to cover Federal funds allocated to the state employment security agencies through the then Bureau of Employment Security now integrated into the Manpower Administration of the Department of Labor. The effective control of these funds required development of an accounting system that would be essentially uniform in all state agencies. The state agency accounting system was to be implemented in three model state agencies, each varying in size and each representative of design problems applicable to other state agencies. The model state agencies were Pennsylvania and Oregon, which required automated systems, and Rhode Island, which required a manually maintained accounting system.

To accomplish the design and initial implementation in the model states, Touche Ross assembled more than 50 staff members from nine offices extending from Portland, Oregon to New York to Washington, D.C. Since the project required the completion of a “turnkey” system, these consultants possessed skills ranging from accounting to computer programming. In addition, hundreds of Federal and state employees contributed to this effort.

Working with a joint Federal-state steering committee, the systems design was completed in June 1968. Implementation of the system in the three model states began immediately and was completed during February 1969.

THE SYSTEM REQUIREMENTS

The specifications for the complete accounting system for the State Employment Security System required the systems design to meet many objectives. They were:

... To comply with all statutory, administrative and other governmental organization requirements binding on the accounting and reporting of the Department of Labor and the state employment security agencies.

... To provide a uniform accrual accounting and reporting system for state agencies.

... To provide adequate financial controls consistent with management needs and responsibilities, including broad fund controls regarding limitations on obligations and more detailed controls in terms of specific costs attributable to each of the employment security programs.

... To provide accounting support for data required for internal cost-based operating budgets, for budget allocations to organizational program components and for budgets presented for submission through Department of Labor channels to the Bureau of the Budget and Congress.

... To provide financial information consistent with Department of Labor management information needs and useful for internal management control down to the state agency local office level.

... To provide accurate and reliable financial and quantitative information on property resources held by the State Employment Security agencies.

Recognizing the system requirements and the environment in which such a system had to be developed and implemented, it was clear that effective and efficient achievement of the objectives would require:

... Development of practical and readily understandable operating procedures, emphasizing simplicity, efficiency and logic.

... Development of effective financial organization structures within each state agency.

... Recruitment and retention of motivated and professionally qualified staff.

... Awareness of the quantity and quality of human, technical and other resources available to operate a support function.

... Development of adequate training programs for all personnel.

... Maximum utilization, when feasible, of data processing equipment, electric accounting machines, or both.
The stated objectives also indicated that any systems design for the complete accounting system would have to include at least:

... Traditional obligation and cash accountability
... Accrual accounting for all transactions
... Cost accounting by responsibility
... Quantitative measures of operations
... Dollar and unit accountability for property
... Cost reporting by functional activity and program
... Integration of cost and appropriation records

THE SYSTEM

The total accounting system consists of six subsystems, each of which provides essential data to one or more of the other subsystems. Exhibit I illustrates this integration and depicts in summary form the input, the data flow between subsystems, and the output of the total system.

The sub-systems in this completely integrated accounting system are:

... Time Distribution
... Cost
... Property
... General Ledger
... Obligation Control
... Appropriation Cost Distribution

Of the above six sub-systems, the first four were integrated into an automated system, utilizing common validation, control, and report generation programs for all sub-systems. The other two were initially designed as manual operations because they are low in activity volume, but would be easily adaptable to automation should any state’s requirements justify such an expense.

TIME DISTRIBUTION SYSTEM

The basic element in the integrated system is a continuous Time Distribution System. The 64,000 employees of the State Employment Security System record daily all time spent on each of over 50 activities that provide services to the public. The time sheets, collected monthly in each state, become the source of data for the preparation of all major time and cost reports.

This sub-system existed prior to our participation and we reduced the number of activities, provided standard codes for all states, automated the entire Time Distribution System, and integrated the Time Distribution System with the Cost System to enable preparation of expense statements and other reports that would now include dollar costs for personal services.

COST SYSTEM

This sub-system introduced the Employment Security System to the continuous collection and reporting of cost data by the following categories:

1. Cost Centers—Each state agency is organized into meaningful cost centers with each such cost center allocated a budget. On a monthly basis, the system provides variance reports by cost center to permit effective cost control within the state agency.

2. Activities—Costs are provided for each activity in the Time Distribution System. By use of these reports, program directors are able to determine whether expenditures are consistent with the public need.

3. Programs—The system satisfies the requirement that all government agencies participate in a Planning-Programming-Budgeting System (PPBS). The Department of Labor and our personnel defined a program structure that includes the Employment Security System. Specifically, the activities performed within the state agencies become the initial element in the program structure for the Department of Labor.

4. Geographical Areas—Recent Congressional legislation has required the collection and reporting of all expenditures for every city with a population over 25,000. The Cost System collects these costs and satisfies the reporting requirements.

5. Appropriations—Congress appropriates monies within specific appropriations and requires that reporting of expenditures be within the same appropriation structure. The Cost System groups activity costs by appropriations, performs overhead allocations, and provides the required cost by each appropriation.

PROPERTY SYSTEM

While many state agencies previously maintained property records, it was necessary to implement two major standard modifications. First, property with a unit value of $100 or more and a life in excess of one year had to be capitalized and depreciated to conform to the accrual accounting concept.
TIME DISTRIBUTION SHEETS
ACCOUNTING TRANSACTIONS
PROPERTY AND QUANTITATIVE DATA
OBLIGATION TRANSACTIONS

APPROPRIATION COST DISTRIBUTION SYSTEM
APPROPRIATION ALLOCATION PERCENTAGES
VALIDATION AND CONTROL SYSTEM
OBLIGATION DATA
OBLIGATION CONTROL SYSTEM

PROPERTY ACCOUNTING SYSTEM

PROPERTY REPORT INFO
DEPRECIATION EXPENSE

COST SYSTEM

TIME DISTRIBUTION SYSTEM

SUMMARY PERSONAL SERVICES DATA
TO REPORT INFO

COST REPORT INFO
APPROPRIATION DATA

GENERAL LEDGER SYSTEM

ACCT'S REPORT INFO

REPORT GENERATION SYSTEM

PROPERTY REPORTS
TIME DISTRIBUTION REPORTS
COST REPORTS
GENERAL LEDGERS
APPROPRIATION REPORTS

EXHIBIT I
State Employment Security Accounting System
Second, property item codes were uniformly assigned to permit the preparation of consistent summary reports for the Employment Security System.

GENERAL LEDGER SYSTEM

Like most government accounting systems, this sub-system maintains a separate self-balancing general ledger for each funding appropriation. The major innovation here is the pooling of the working capital of each individual appropriation into a general operating fund ledger. Basically, each appropriation fund transfers its cash to the general fund, thereby establishing interfund liabilities and receivables. All transactions during the accounting cycle are then processed through the general fund ledger. At the end of each accounting cycle, the general fund satisfies its interfund liabilities by transferring the applicable costs, as assigned through the Cost System, to the appropriate funding appropriations.

In addition to the general and the appropriation fund ledgers, this sub-system includes a property fund ledger. This self-balancing general ledger maintains summary dollar control accounts for all capitalized property.

OBLIGATION CONTROL SYSTEM

Recognizing a need for daily control of available obligation authority, the consultants recommended that the system include an off-line manual sub-system. Since, in most cases, obligations incurred cannot be directly assigned to the funding appropriation, all obligation authority for administration is combined and controlled in total daily. Obligations are recorded daily to assure the availability of funds prior to commitment. Individual deobligation of funds (disbursement recording) is not required in this sub-system since unliquidated (unpaid) obligations are determined through inventory of open documents.

In addition to daily control in total, this sub-system includes a monthly forecast of obligations to be incurred by funding appropriation. This forecasting technique, utilizing historical allocations of costs to funding appropriations, is used to flag potential overrun situations by appropriation.

APPROPRIATION COST DISTRIBUTION SYSTEM

The assignment of costs to several appropriations is based on the results of services performed by Employment Security personnel. Since these results cannot always be determined when the services are performed, it was necessary to design and implement the Appropriation Cost Distribution System.

Using a statistical base, this system reflects the time spent with applicants in the performance of various functional activities. Determination of the final training or placement services accorded the applicants enables the association of functional activities with funding appropriations. In combination with additional data supplied from an existing statistical reporting system, these data are used to charge each of the funding appropriations with a share of the costs of the functional activities.

THE FOLLOW-THROUGH EFFORT

Following the successful implementation of the State Accounting System in the three model state agencies (Pennsylvania, Oregon, and Rhode Island), the Department of Labor was confronted with the task of implementing the system in the remaining states and participating jurisdictions.

Touche Ross assisted in four major areas of this program:

... Training of state agency personnel
... Evaluation of capabilities of each state agency
... Implementation assistance for selected state agencies
... General support for the Department of Labor

TRAINING OF STATE AGENCY PERSONNEL

The Department of Labor adopted the requirement that all state agencies would be responsible for implementing the system by July 1970. To support this requirement, Touche Ross prepared and conducted a series of training programs on the implementation and operation of the new accounting system. These programs were conducted in New York, Washington, D. C., Atlanta, and Denver during February and March of 1969. There were two-week sessions for state accounting personnel and one-week programs for the EDP personnel.

Our staff has held many subsequent sessions as part of the continuing program conducted by the Department of Labor to insure the successful and timely implementation of the system nationally.

EVALUATION OF CAPABILITIES OF EACH STATE AGENCY

The Department of Labor recognized that a successful implementation could be achieved only if the project were properly planned and subsequently controlled. Therefore, following the initial training programs, it asked Touche Ross to visit every state agency to assist
in the development of a proper implementation plan and to evaluate the capabilities of the agency to implement and maintain the system. The result of these evaluations was the allocation of more funds to many state agencies for additional personnel and expanded computing capability to support the system.

IMPLEMENTATION ASSISTANCE FOR SELECTED STATE AGENCIES

The major portion of the funds allocated are concentrated in the larger state agencies. Consequently, the successful implementation of the system in relatively few agencies would insure that the Department of Labor had effective control over more than 80% of the allocated funds. For this reason, Touche Ross was asked to provide implementation assistance to seven additional agencies. At year's end our personnel were supporting the implementation efforts in New York, New Jersey, Massachusetts, Florida, Illinois, Michigan and Virginia.

GENERAL SUPPORT BY THE DEPARTMENT OF LABOR

The Department of Labor immediately recognized that the implementation efforts in 47 state agencies must be supported by a central staff that would perform such functions as:

... Maintenance of the computer programs
... Maintenance of standard accounting procedures
... Communication with state agency personnel relative to inquiries on the various aspects of the accounting system

... Dissemination of procedural changes that would develop as the system was used in all state agencies

Touche Ross was asked to provide the services of accounting and EDP staff members to supplement the personnel in the Department of Labor in Washington. Currently, our Washington office has personnel actively engaged in this task and, at the same time, assisting in the revision of budgeting procedures applicable to the state agencies that were not included in the scope of the original engagement.

THE JOB AHEAD

The long awaited Employment Security State Accounting System is now a reality. The system has been developed, it has been implemented in the model states, other state personnel have been trained to maintain and implement the system, and the Federal level stands ready to provide assistance to any state or jurisdiction that may lack the capability to install the system itself. The Department of Labor has successfully faced and met a major challenge. However, in this case, the meeting of one challenge at the Federal level has created a new and different challenge for the state personnel of the Employment Security System. The new accounting system is merely a tool. Its utility can be measured only by its users and the assistance that it can provide them. The challenge now is for the states to adopt and, if necessary, modify the system to fit their environments. In this way they will cease to view the system merely as another of many Federal requirements and will begin to use it as a tool which will provide data essential to the accomplishment of their group and individual objectives.