

COMMONWEALTH OF PENNSYLVANIA

**EVALUATION OF GRANT OBLIGATIONS,
EXPENDITURES AND PAYMENTS**

**WORKFORCE INVESTMENT ACT GRANTS
AND JOB TRAINING PARTNERSHIP ACT
TRANSITION FUNDS**

**INDEPENDENT ACCOUNTANTS- REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**GRANTS AND TRANSITION FUNDS AWARDED TO
THE COMMONWEALTH OF PENNSYLVANIA**

JULY 1, 1999 THROUGH DECEMBER 31, 2001

This agreed-upon procedures report was prepared by R. Navarro & Associates, Inc., under contract to the U.S. Department of Labor, Office of Inspector General, and, by acceptance, it becomes a report of the Office of Inspector General.

Elisat P. Lewis

Deputy Inspector General for Audit
U.S. Department of Labor

Report No.: 04-03-004-03-390
Date Issued: November 4, 2002

R. NAVARRO & ASSOCIATES, INC

TABLE OF CONTENTS

Acronymsiii

Independent Accountants= Report on Applying Agreed-Upon Procedures1

Summary of Findings.....2

Background, Scope and Methodology3

 Background3

 Scope and Methodology.....4

Procedures and Findings5

Exhibit I – Financial Status Report, Local Youth Program Activities

Exhibit II – Financial Status Report, Local Adult Program Activities

Exhibit III – Financial Status Report, Local Dislocated Worker Program Activities

Exhibit IV – Commonwealth of Pennsylvania’s Response

ACRONYMS

AICPA	American Institute of Certified Public Accountants
CFR	Code of Federal Regulations
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
ICS	Integrated Centralized System
FMS	Financial Management System
FSR	Financial Status Report
FY	Fiscal Year
JTPA	Job Training Partnership Act
NOO	Notice of Obligations
OGCM	Office of Grants and Contract Management
OIG	Office of the Inspector General
PMS	Payment Management System
PY	Program Year
TAG	Financial Management Technical Assistance Guide
WIA	Workforce Investment Act

Mr. Elliot P. Lewis
Deputy Inspector General for Audit
Office of Inspector General
U.S. Department of Labor

***INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES***

We have performed the procedures enumerated in the Procedures and Findings section of this report. These procedures were agreed to by the U.S. Department of Labor (DOL), Office of Inspector General (OIG), solely to assist you in evaluating the Commonwealth of Pennsylvania's obligation, expenditure and payment activities for available Job Training Partnership Act (JTPA) balances and the Workforce Investment Act (WIA) funds that occurred during the period July 1, 1999 through December 31, 2001. In certain instances, procedures were applied to information reported as of March 31, 2002.

Management of the Commonwealth of Pennsylvania is responsible for reporting grant obligations, expenditures and payments to Employment and Training Administration (ETA). ETA is responsible to record grant obligations, reported expenditures and payments in the DOL's general ledger.

This agreed-upon procedures engagement was performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of your office as the specified user of the report. Consequently, we make no representation regarding the sufficiency of the procedures performed either for the purpose for which this report has been requested or for any other purpose.

The results of our procedures are described in the Procedures and Findings section of this report.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the accompanying information obtained from the respective entities. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the DOL, OIG, and is not intended to be and should not be used by anyone other than the specified party.

June 28, 2002

R. Navarro & Associates, Inc.

SUMMARY OF FINDINGS

We identified and summarized the Workforce Investment Act (WIA) funds obligated, expended and withdrawn as of December 31, 2001 (and in certain instances March 31, 2002), based on records available at both the Commonwealth of Pennsylvania and Local Boards, and found that the accounting records supported expenditure amounts reported on quarterly financial reports. We also found that expenditures were reported on the accrual basis of accounting in accordance with ETA reporting requirements, however, obligations were not reported in accordance with the methods described by ETA's Office of Grants and Contract Management (OGCM). The written instructions issued by ETA to WIA grantees did not correspond with the obligation reporting described by OGCM.

The Commonwealth's Financial Status Reports (FSRs) reflect that \$271.1 million of the \$286.6 million awarded to the Commonwealth for the WIA program had been obligated as of December 31, 2001. However, this is due to the fact that the Commonwealth reported obligations for Local Board activities equal to the total funds passed through to the Local Boards, rather than the actual amounts obligated by the Local Boards. Actual obligations recorded at March 31, 2002, totaled \$258.2 million, leaving \$28.4 million in unobligated balances.

Expenditures reported at December 31, 2001, reflect that \$168.5 million of the \$286.6 million awarded, had been expended by the Commonwealth and Local Boards, leaving \$118.1 million or 41.2 percent unexpended. At this rate of spending, it would take over 1 year to spend the remaining funds, in which time the Commonwealth would have received additional WIA allocations.

Commonwealth of Pennsylvania's Response

The Pennsylvania Department of Labor & Industry, Bureau of Workforce Investment, provided a written response to our draft report, dated October 11, 2002, which is included in its entirety at Exhibit IV. Pennsylvania responded that the auditors never conducted an exit conference, that a substantial portion of unexpended funds were just awarded in July 2001 and October 2001, and that Local Area obligations are reported using the Department of Labor's on-line reporting system in accordance with state and Federal guidelines. Pennsylvania does not believe that Local Areas have excess cash because there is a 15-day time lag in reporting expenditures.

OIG's Evaluation of Pennsylvania's Response

An exit conference was held with the agency's Comptroller on June 25, 2002. Our report completely discloses when funds were awarded and expended. For example, 71.3 percent of the funds awarded in July 2001 and 94.7 percent of funds awarded in October 2001 were not spent as of December 31, 2001. As discussed in our report, we agree that ETA's written instructions for obligation reporting do not correspond with the method described by ETA's OGCM.

In regards to Pennsylvania's contention that Local Boards do not have excess cash, no additional information was provided that would cause us to change our conclusion. We continue to believe that Pennsylvania's 3 weeks (15 work days) supply of cash is not in compliance with the "immediate cash requirements" criteria. With the availability of electronic funds requests and transfers, a much smaller cash balance would be adequate.

BACKGROUND, SCOPE AND METHODOLOGY

Background

WIA was enacted in 1998. The WIA program was designed to reform prior Federal job training programs and create a new comprehensive workforce investment system. The reformed system intends to provide customer-focused services, assist Americans in accessing the tools needed to manage their careers through information and services, and assist U.S. companies in finding skilled workers. The Act superseded the Job Training Partnership Act and amended the Wagner-Peyser Act.

Initial grants for the WIA program were awarded by DOL ETA beginning in Program Year (PY) 2000. However, unexpended funds from the PY 1998 and PY 1999 JTPA state grants were authorized for transition into the WIA program. The Commonwealth of Pennsylvania was an early implementation state for the WIA program, and started the program in PY 1999 using JTPA transition funding.

Generally, the states are required to pass through approximately 85 percent of the awards received from DOL to Local Boards (subrecipients). States have the original program year plus two additional program years to spend the grant funds. However, funds allocated by a state to a Local Board for any program year are available for expenditure only during that program year and the succeeding program year. Funds that are not expended by a Local Board in this 2-year period must be returned to the state.

States are required to report WIA activities on quarterly FSRs. Accrued expenditures and obligations are key items reported on the FSRs. Accrued expenditures are reported when a liability has been created through delivery of goods or services, regardless of when cash payment is made. For example, salaries earned by employees, but not yet paid, should be recorded as accrued expenditures. Obligations are reported when certain events occur which will require payment by the States or Local Boards in the same or a future period. Obligations are defined in the WIA regulation as follows:

. . . . the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a funding period that will require payment by the recipient or subrecipient during the same or a future period [20 CFR 660.300].

According to ETA's OGCM, states have been instructed to report obligations incurred at the state level (Statewide Activities and Rapid Response) at the time obligations are incurred by the state. However, for Local Board activities (Local Administration, Youth, Adult and Dislocated Workers), states have been instructed to report obligations at the time they are incurred by the Local Boards. This requires the states to collect and consolidate obligation information for all of the Local Boards located within the state.

WIA grantees obtain grant funds through the U.S. Department of Health and Human Services' (HHS), Payment Management System (PMS). Once ETA awards a grant, the recipient can obtain online access to the PMS system and draw down grant funds, on a daily basis.

Scope and Methodology

Our agreed-upon procedures encompass the WIA funds awarded to the Commonwealth of Pennsylvania for PY 2000, FY 2001, PY 2001 and FY 2002, as well as PY 1998 and PY1999 JTPA funds transitioned into the WIA program. Procedures were applied to grant activities reported by the Commonwealth and two Local Boards (South Central Employment Corporation and City of Philadelphia) from July 1, 1999 through December 31, 2001. In certain instances, we obtained information subsequently reported by the Commonwealth and Local Boards for the March 31, 2002 reporting period.

In general, our procedures were designed to summarize the Commonwealth of Pennsylvania's WIA financial activity (obligations, payments and expenditures), to determine if the amounts reported to ETA agree with the supporting accounting records, and to measure the extent of which the Commonwealth and Local Boards have obligated, expended and drawn down WIA funds.

PROCEDURES AND FINDINGS

1. Identify and summarize the total WIA grant funds awarded by the DOL to the Commonwealth as of December 31, 2001.

The table below shows the total WIA funds awarded by the DOL to the Commonwealth of Pennsylvania since inception of the WIA program:

Funding Period	Beginning of Spending Period	Expiration of Spending Period	Total WIA Funds Awarded
PY 1998	JTPA Transition	June 30, 2001	\$ 8.5 million
PY 1999	JTPA Transition	June 30, 2002	\$ 63.7 million
PY 2000	July 1, 2000	June 30, 2003	\$ 55.5 million
FY 2001	October 1, 2000	June 30, 2003	\$ 51.2 million
PY 2001	July 1, 2001	June 30, 2004	\$ 58.8 million
FY 2002	October 1, 2001	June 30, 2004	<u>\$ 48.9 million</u>
Total Awards			<u>\$286.6 million</u>

WIA funds are awarded on a PY basis, from July 1 to June 30, except for Youth grants that were available in April preceding the start of the PY. However, a portion of the PY 2000 and 2001 funding, denoted as "FY" above, was not available until October 1 of each respective PY. As required by WIA, the Commonwealth passed approximately 85 percent of its grant funds to Local Boards (subrecipients).

2. From the FSRs, identify and summarize total WIA obligations as of December 31, 2001 and calculate the amount and percentage of unobligated balances.

Total obligations reported by Pennsylvania as of December 31, 2001 were as follows:

Funding Period	Total Funds Awarded (in millions)	Total Obligations Per FSR (in millions)	Amount Unobligated Per FSR (in millions)	Percent of Funding Unobligated
PY 1998	\$ 8.5	\$ 8.5	\$ 0	0%
PY 1999	\$ 63.7	\$ 61.9	\$ 1.8	2.8%
PY 2000	\$ 55.5	\$ 55.3	\$.2	.4%
FY 2001	\$ 51.2	\$ 48.4	\$ 2.8	5.5%
PY 2001	\$ 58.8	\$ 56.9	\$ 1.9	3.2%
FY 2002	<u>\$ 48.9</u>	<u>\$ 40.1</u>	<u>\$ 8.8</u>	18.0%
Total	<u>\$ 286.6</u>	<u>\$ 271.1</u>	<u>\$ 15.5</u>	5.4%

The information reported as of December 31, 2001, reflects that the Commonwealth and Local Boards had obligated 94.6 percent of the total WIA funding available, leaving only

5.4 percent unobligated. The FSRs submitted by the Commonwealth for Local Board activities indicated that 100 percent of the funds were obligated. This is due to the fact that the Commonwealth reported obligations equal to the total funds passed through to the Local Boards, rather than the amounts actually obligated by the Local Boards. These reporting practices are discussed in further detail at item 10 of this report.

Since the Local Boards are required to report obligation data to the Commonwealth, we were able to compile the total obligations from certain reports generated by the Commonwealth's accounting system. The reports reflected March 2002 rather than December 2001 data (due to difficulties generating data for prior periods) and combined funding streams by fiscal year, as follows:

Funding Period	Total Funds Awarded (in millions)	Reported Obligations (in millions)	Unobligated Balances (in millions)	Percent of Funding Unobligated
PY 1998	\$ 8.5	\$ 8.5	\$ 0	0%
PY 1999	\$ 63.7	\$ 62.9	\$.8	1.3%
PY 2000/ FY 2001	\$ 106.7	\$ 99.9	\$ 6.8	6.4%
PY 2001/ FY 2002	<u>\$ 107.7</u>	<u>\$ 86.9</u>	<u>\$ 20.8</u>	19.3%
Total	<u>\$ 286.6</u>	<u>\$ 258.2</u>	<u>\$ 28.4</u>	9.9%

The March 31, 2002, data reflects that the Commonwealth and Local Boards had obligated 90.1 percent of the total available WIA funding to date, leaving 9.9 percent unobligated.

3. Identify and summarize the WIA grant expenditures reported by the Commonwealth as of December 31, 2001, and calculate the amount and percentage of unspent funding.

Total WIA expenditures reported by the Commonwealth through December 31, 2001, were as follows:

Funding Period	Total Funds Awarded (in millions)	Total Expenditures (in millions)	Amount Unspent (in millions)	Percent of Funding Unspent
PY 1998	\$ 8.5	\$ 8.5	\$ 0	0%
PY 1999	\$ 63.7	\$ 56.8	\$ 6.9	10.8%
PY 2000	\$ 55.5	\$ 46.8	\$ 8.7	15.8%
FY 2001	\$ 51.2	\$ 36.9	\$ 14.3	27.9%
PY 2001	\$ 58.8	\$ 16.9	\$ 41.9	71.3%
FY 2002	<u>\$ 48.9</u>	<u>\$ 2.6</u>	<u>\$ 46.3</u>	94.7%
Total	<u>\$ 286.6</u>	<u>\$ 168.5</u>	<u>\$ 118.1</u>	41.2%

Of the \$286.6 million of WIA funds awarded to Pennsylvania, the Commonwealth spent \$168.5 million, 58.8 percent of the total funds awarded, leaving a significant portion of its funding (41.2 percent) unspent as of December 31, 2001. The PY 2001 and FY 2002 funding years reflect that only \$19.5 million (18 percent) had been spent as of December 31, 2001, even though several months had expired since the funds were awarded. We subsequently obtained expenditure information reported for the quarter ended March 31, 2002, and noted that 30 percent of the total WIA funds remained unspent as of that date.

4. Determine if the expenditure amounts reported to DOL agree to the Commonwealth and two Local Board’s accounting records.

We compared the expenditure amounts reported to the DOL for both Commonwealth and Local Board activities to expenditures recorded in the Commonwealth’s grant accounting records, and found that the amounts reported reconciled to the Commonwealth’s accounting records. We visited two Local Boards, and found that the expenditures reported to the Commonwealth reconciled to expenditures recorded in the Local Boards’ accounting systems.

5. Calculate the amount and percentage of unspent funding by program component.

The following provides a summary of unspent funding by program component.

Program Component	Funds Awarded (in millions)	Total Expenditures (in millions)	Amount Unspent (in millions)	Percent Of Funding Unspent
<u>Local Board Activities:</u>				
Adults	\$ 76.5	\$ 50.3	\$ 26.2	34.2%
Youth	\$ 66.3	\$ 40.3	\$ 26.0	39.3%
Dislocated Worker	\$ 52.7	\$ 36.9	\$ 15.8	30.0%
Local Admin	<u>\$ 21.7</u>	<u>\$ 12.9</u>	<u>\$ 8.8</u>	40.6%
Total Local Activities	\$ 217.2	\$ 140.4	\$ 76.8	35.4%
<u>State Activities:</u>				
State-Wide Activities	\$ 42.2	\$ 18.7	\$ 23.5	55.8%
State Rapid Response	<u>\$ 27.2</u>	<u>\$ 9.4</u>	<u>\$ 17.8</u>	65.4%
Total State Activities	\$ 69.4	\$ 28.1	\$ 41.3	59.5%
Total Funding	<u>\$ 286.6</u>	<u>\$ 168.5</u>	<u>\$ 118.1</u>	41.2%

The cost data submitted by the Commonwealth through December 31, 2001, indicate that the percentage of unspent funds for Local Board and State activities was 35.4 percent and 59.5 percent, respectively.

6. Calculate the rate of expenditure for the Commonwealth of Pennsylvania's WIA program as of the quarter ended December 31, 2001.

From July 1, 1999 through December 31, 2001, the rate of expenditure for the WIA program has averaged approximately \$1.3 million per week. At that rate, the Commonwealth had about 1.8 years of available funding as of December 31, 2001.

We also obtained the FSRs for March 31, 2002. The cost reports reflect that the Commonwealth spent an additional \$32.2 million in this quarter, leaving the unspent balance of \$85.9 million, or 30 percent of the total funds awarded. This cost activity indicates a slight acceleration of WIA expenditures for the latest quarter. However, even at this rate it would take more than 1 year to spend the existing funds available, during which period of time the Commonwealth would have received additional allocations.

7. Identify potential reasons for the high percentage of unspent funds.

According to Commonwealth officials, the main reason for the high percentage of unspent funds was the slow implementation of WIA. They indicated that additional time was required to develop new partnerships and the design of the One-Stop Centers, and that as an early implementer of the WIA program, there was little guidance from ETA at the time the program began. Management also stated that monthly meetings are now held to review the financial activity of the Local Boards and determine if they are meeting goals for the amount of obligated funds. The Commonwealth's Technical Assistance Guide (TAG), Chapter 4, "Recapture and Reallotment," identifies the Local Boards responsibilities relating to unobligated funds and states in part:

Beginning with Program Year 2000 (July 1, 2000), any Fiscal Agent who obligates less than 80% of their Adult, Dislocated Worker and Youth allocations (by individual funding stream) will be subject to deobligation. If, at the end of the first program year within the two year agreement, obligations are less than 80%, corrective action will be taken which will include deobligation of funds. These deobligated funds will be reallotted to Fiscal Agents who have obligated at least 80% of their Adult, Dislocated Worker and Youth allocations.

8. Identify and summarize the total WIA payments received by the Commonwealth of Pennsylvania as of December 31, 2001, and calculate the resulting available cash.

The following provides a summary of the funds withdrawn from the HHS/PMS system as of December 31, 2001, and the resulting cash balances.

Funding Period	Total Expenditures (in millions)	Total Cash Withdrawn (in millions)	Cash Available (in millions)
PY 1998	\$ 8.5	\$ 8.5	\$ 0
PY 1999	\$ 56.8	\$ 59.5	\$ 2.7
PY 2000	\$ 46.8	\$ 52.2	\$ 5.4
FY 2001	\$ 36.9	\$ 35.4	\$ (1.5)
PY 2001	\$ 16.9	\$ 15.0	\$ (1.9)
FY 2002	<u>\$ 2.6</u>	<u>\$ 2.0</u>	<u>\$ (0.6)</u>
Total	<u>\$168.5</u>	<u>\$ 172.6</u>	<u>\$ 4.1</u>

9. Determine if the cash withdrawn by the Commonwealth and Local Boards for the WIA program is reasonable based on the actual rate of expenditures, and that the resulting cash balance is in compliance with the applicable regulations.

The \$4.1 million available cash identified above represents cash drawn down in excess of costs incurred, as of December 31, 2001. Since the Commonwealth averaged approximately \$5.6 million of grant expenditures per month (from July 1999 through December 2001), the available cash of \$4.1 million represents approximately 3 weeks (15 days) of cash needs.

The cash management regulations applicable to the WIA program require that cash advances be limited to the “minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the State in carrying out a program or project” [31 CFR 205]. Since the available cash at December 31, 2001 represents approximately 15 days of cash needs, rather than the “immediate cash requirements,” we do not believe that the Commonwealth is in compliance with this criteria.

10. Determine how the Commonwealth reports obligations for Local Board activities (i.e. Adult, Dislocated Workers, Youth and Local Administration) and if the method used for reporting to the DOL is in compliance with instructions issued by the ETA.

The obligation amounts reported by Pennsylvania for all Local Board activities represented the total amount of funds passed through to the Local Boards.

ETA’s OGCM informed us that Local Board FSRs should include obligations incurred by the Local Boards, rather than the Commonwealth’s obligations for amounts passed through to the Local Boards. However, Commonwealth officials believed obligations were reported in accordance with ETA instructions.

We looked to the written reporting instructions issued by ETA. The written instructions do not specify that the Local Board obligations should be reported on the FSRs. As an example, the Youth reporting instructions define obligations as the sum of net outlays (i.e., expenditures) plus unliquidated obligations, which are defined as follows:

Item 10. i. FEDERAL UNLIQUIDATED OBLIGATIONS are obligations incurred, but for which an outlay (expenditure) has not yet been recorded in the grantee's books of account. This amount should include unliquidated obligations to subgrantees and contractors. (State has 90 days after all funds have been expended or the period of availability has expired to liquidate funds that were obligated during the period of performance.) [Training and Employment Guidance Letter No. 16-99, June 23, 2000, Attachment D.]

11. Determine if expenditure information is reported to ETA on the accrual basis of accounting, in accordance with the regulations at 29 CFR 97 and the WIA reporting instructions issued by ETA.

The Commonwealth records and reports cost information on the accrual basis of accounting in accordance with regulations at 29 CFR 97, 20 CFR 667.300 and the WIA reporting instructions issued by ETA. In addition, the Commonwealth has issued guidance to all of the Local Boards in the TAG, Chapter 3, which states in part:

While a separate accounting system need not be established, each entity must maintain financial records that adequately identify the source and application of all funds. In addition, a cash-based accounting system must be capable of developing the accrued expenditure information needed to complete the required financial reports. Sufficient documentation must be maintained to support the accrual information reported to the Department of Labor and Industry.

12. Determine what information is required to be reported by the Local Boards to the Commonwealth, and if the reporting requirements established by the Commonwealth ensure compliance with the program regulations at 20 CFR 667.300.

The Commonwealth uses the Financial Management System (FMS) for recording all Local Board WIA financial transactions, including obligations, expenditures and payments. This is an automated data collection and reporting system that provides the information used to analyze and monitor compliance with Federal and Commonwealth fiscal mandates. The statewide Intranet-based design establishes the mechanism for a uniform reporting and cash management system that is designed to allow authorized users to: (1) request and approve requests for funds, (2) report accrued expenses, (3) document and identify financial information by contract, (4) monitor obligations and expenditures by funding stream and (5) obtain standardized or query reports. The system is initialized with Notice Of Obligation (NOO) information and then is used for recording the Local Boards WIA payments and expenditures. The Commonwealth issued a TAG to the Local Boards that provides reporting instructions for all WIA financial information entered directly into the Commonwealth's FMS. The TAG provides operational guidance and sets policy for program accountability. We found that the FMS reporting requirements were substantially compliant with the program regulations at 20 CFR 667.300.

13. Determine how the Commonwealth tracks the various funding periods for both Commonwealth activities and Local Board activities, and if data is accounted for in a manner that will allow costs to be matched against the appropriate obligation.

The Commonwealth has a system in place to track the various funding periods for both State and Local Board activities in a manner that allows costs to be matched against the corresponding obligations. Each subaward recorded in the FMS is assigned its own Funding Stream Code. The Funding Stream Code identifies the source of funding (i.e., the specific WIA grant) and the program component (whether it is Adult, Youth, Dislocated Worker, etc.). Each grant is also assigned a Program Year Code and Sub Program Code, which identify the term and increment of the grant respectively. These codes are used to track obligations, expenditures and payments by the Local Boards to ensure that subaward activity is matched against the corresponding WIA grant.

14. Determine the documentation used by the Commonwealth to award the pass through allocations to the Local Boards. Based on the information obtained, determine if the Commonwealth subaward document is in compliance with the requirements of the uniform grant administration procedures outlined at 29 CFR 97.37.

The Commonwealth enters into formal Business Plan/Agreement with the Local Boards. When agreements are signed by authorized personnel for both parties, an agreement number is assigned and a NOO is issued and entered into the FMS. We found this documentation to be substantially compliant with the requirements of the uniform grant administration procedures outlined at 29 CFR 97.37. For example, this regulation requires that “every subgrant include clauses required by Federal statute and executive orders and their implementing regulations,” and that every cost reimbursement subgrant include a provision for compliance with 29 CFR 97.42, which sets forth the retention and access requirements for financial and programmatic records relative to the Federal grant or subgrant.

15. Inquire as to the source of obligation, cost and/or payment information reported to the Commonwealth by the Local Board, and determine if the information reported materially agrees with the corresponding source accounting records.

The financial information for WIA is reported to the Commonwealth in summary form through the Commonwealth’s FMS. From this financial information, reports can be developed which support the FSRs. The data recorded in FMS include the following information by individual Local Board:

- ✓ Name and identification number of the Local Boards
- ✓ Identification of the program and program year
- ✓ Amount of the NOO’s issued by the Commonwealth to the Local Boards
- ✓ Amount obligated by the Local Boards
- ✓ Unobligated balances
- ✓ Expenditures (coded by administration and program categories)
- ✓ Unexpended balances
- ✓ Payments

On a test basis, we traced information reported in the FMS to the supporting accounting records with no material differences noted.

16. Determine if Local Board cost information is reported on the accrual basis of accounting, in accordance with the regulations at 29 CFR 97 and the WIA reporting instructions issued by ETA.

Expenditures are reported by the Local Boards using the accrual basis of accounting, in accordance with the regulations at 29 CFR 97 and the reporting instructions issued by ETA.

The Commonwealth issued guidance to all of the Local Boards in the TAG, Chapter 3, which states in part:

While a separate accounting system need not be established, each entity must maintain financial records that adequately identify the source and application of all funds. In addition, a cash-based accounting system must be capable of developing the accrued expenditure information needed to complete the required financial reports. Sufficient documentation must be maintained to support the accrual information reported to the Department of Labor and Industry.

17. If obligation information is not required to be reported to the Commonwealth, determine if the Local Board has accounted for their obligations in the official accounting system or in “cuff” records.

As mentioned previously in this report, Local Board obligations are required to be reported to the Commonwealth in the FMS. We found that the two Local Boards visited also tracked obligations in their own accounting records.

18. Determine how the Local Board defines “obligation,” and the point at which funds are considered to be obligated. Determine if the Local Board definition meets the criteria defined in the program regulations at 20 CFR 660.300.

The two Local Boards visited defined obligation as: (1) legally binding contracts, (2) Letters of Intent signed by both parties, (3) accounts payable (unliquidated obligations), (4) paid expenditures, and (5) open purchase orders. We found that this definition was compliant with the WIA regulations. However, neither of the Local Boards reported open purchase orders as obligations because they considered them to be immaterial in dollar value and infrequent in number.

The majority of the funds are obligated by the Local Boards through various types of third party contracts. When a contract is executed between the Local Board and an independent contractor, it is recorded as an obligation of the Local Board and reported in the FMS.

- 19. Inspect copies of the types of contracts issued for training services. Determine whether or not the subcontracts for training services issued by the Local Board contained the required information and clauses as specified in the grant administration requirements at 29 CFR 97.**

We obtained four training subcontracts issued by one of the Local Boards visited, and three subcontracts issued by the other Local Board. We found the training subcontracts to be substantially compliant with the uniform grant administration requirements of 29 CFR, Part 97.

Both of the Local Boards visited issued formal contractual agreements to subcontractors, which referred to the requirements and regulations applicable to WIA operations, and set forth the essential contract terms and conditions.

- 20. Determine what information is required to be reported by the training subcontractors to the Local Boards, including the content, format, frequency and any written instructions issued by the Local Board. Based on the information obtained, determine whether or not the Local reporting requirements are in substantial compliance with the program regulations at 20 CFR 667.300.**

The information that is required to be submitted by subcontractors to both of the Local Boards was defined within the contracts and was considered to be substantially compliant with 20 CFR 667.300. Examples of information reported include: expenditures by category, names of participants served, type of service provided, etc.

- 21. Determine how the Local Board tracks the various funding periods, and if data is reported and accounted for in a manner which will allow costs to be matched against the appropriate obligation or subcontract agreement.**

As previously discussed, the Commonwealth's FMS system requires that data reported by the Local Boards be identified through specific codes designed to match expenditure and payment information against the corresponding obligation per funding period.

EXHIBIT I

**FINANCIAL STATUS REPORT
LOCAL YOUTH PROGRAM ACTIVITIES**

Following this title page is the WIA financial status report used to record local youth program activities

**Workforce Investment Act
Local Youth Program Activities**

U.S. Department of Labor
Employment and Training Administration



Financial Status Report		OMB Approval No. 1205-0408	Page of
1. Federal Agency and Organizational Element to Which Report is Submitted	2. Federal Grant or Other Identifying Number Assigned By Federal Agency	Expires: 02/29/04	pages

3. Recipient (Name and complete address, including ZIP code)

4. Employer Identification Number	5. Recipient Account Number or Identifying Number	6. Final Report <input type="checkbox"/> Yes <input type="checkbox"/> No	7. Basis <input type="checkbox"/> Cash <input type="checkbox"/> Accrual
-----------------------------------	---	---	--

8. Funding Year	9. Period Covered by the Report From: (Month, Day, Year)	To: (Month, Day, Year)
-----------------	---	------------------------

10. Transactions:	Cumulative
a. Total Federal outlays	
b. Refunds, rebates, etc.	
c. Outlays for Out-of-School Youth	
d. Outlays for In-School Youth	
e. Outlays for summer employment opportunities	
f. Net Federal outlays (Line a minus b)	
g. Recipient outlays for allowable program activities	
h. Net Federal outlays	
i. Federal share of unliquidated obligations	
j. Total Federal obligations (Line h plus i)	
k. Total Federal funds authorized for this funding period	
l. Unobligated balance of Federal funds (line k minus j)	
Program income consisting of:	
m. Disbursed program income using the addition method	
n. Undisbursed program income	
o. Total program income realized (Line m plus n)	

11. Remarks: Attach any explanations deemed necessary or information required by Federal sponsoring agency in compliance with governing legislation.

12. Certification: I certify to the best of my knowledge and belief that this report is correct and complete and that all outlays and unliquidated obligations are for the purposes set forth in the award documents.

Typed or Printed Name and Title	Telephone (Area code, number and extension)
Signature of Authorized Certifying Official	Date Report Submitted

Persons are not required to respond to this collection of information unless it displays a currently valid OMB control number. Respondents obligation to reply to these reporting requirements are Mandatory (WIA; 20 CFR 652 et al). Public reporting burden for this collection of information is estimates to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestion for reducing this burden to the U.S. Department of Labor, Office of Welfare-to-Work, Room N-4716, Washington, D.C. 20210 (Paperwork Reduction Project (1205-0408)).

EXHIBIT II

**FINANCIAL STATUS REPORT
LOCAL ADULT PROGRAM ACTIVITIES**

Following this title page is the WIA financial status report used to record local adult program activities.

**Workforce Investment Act
Local Adult Program Activities**

**U.S. Department of Labor
Employment and Training Administration**



Financial Status Report		OMB Approval No. 1205-0408	Page of
1. Federal Agency and Organizational Element to Which Report is Submitted	2. Federal Grant or Other Identifying Number Assigned By Federal Agency	Expires: 02/29/04	pages

3. Recipient (Name and complete address, including ZIP code)

4. Employer Identification Number	5. Recipient Account Number or Identifying Number	6. Final Report <input type="checkbox"/> Yes <input type="checkbox"/> No	7. Basis <input type="checkbox"/> Cash <input type="checkbox"/> Accrual
-----------------------------------	---	---	--

8. Funding Year	9. Period Covered by the Report From: (Month, Day, Year)	To: (Month, Day, Year)
-----------------	---	------------------------

10. Transactions:	Cumulative
a. Total Federal outlays	
b. Refunds, rebates, etc.	
c. Net Federal outlays (Line a minus b)	
d. Recipient outlays for allowable program activities	
e. Net Federal outlays	
f. Federal unliquidated obligations	
g. Total Federal obligations (Line e plus f)	
h. Total Federal funds authorized for this funding period	
i. Transfers from dislocated worker program activities	
j. Transfers to dislocated worker program activities	
k. Adjusted total federal funds available	
l. Unobligated balance of Federal funds (line k minus g)	
Program income consisting of:	
m. Disbursed program income using the addition method	
n. Undisbursed program income	
o. Total program income realized (Line m plus n)	

11. Remarks: Attach any explanations deemed necessary or information required by Federal sponsoring agency in compliance with governing legislation.

12. Certification: I certify to the best of my knowledge and belief that this report is correct and complete and that all outlays and unliquidated obligations are for the purposes set forth in the award documents.

Typed or Printed Name and Title	Telephone (Area code, number and extension)
Signature of Authorized Certifying Official	Date Report Submitted

Persons are not required to respond to this collection of information unless it displays a currently valid OMB control number. Respondents obligation to reply to these reporting requirements are Mandatory (WIA; 20 CFR 652 et al). Public reporting burden for this collection of information is estimates to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestion for reducing this burden to the U.S. Department of Labor, Office of Welfare-to-Work, Room N-4716, Washington, D.C. 20210 (Paperwork Reduction Project (1205-0408)).

EXHIBIT III

**FINANCIAL STATUS REPORT
LOCAL DISLOCATED WORKER PROGRAM ACTIVITIES**

Following this title page is the WIA financial status report used to record local dislocated worker program activities.

**Workforce Investment Act
Local Dislocated Worker Program
Activities**

U.S. Department of Labor
Employment and Training Administration



Financial Status Report		OMB Approval No. 1205-0408	Page of
1. Federal Agency and Organizational Element to Which Report is Submitted	2. Federal Grant or Other Identifying Number Assigned By Federal Agency	Expires: 02/28/04	pages

3. Recipient (Name and complete address, including ZIP code)

4. Employer Identification Number	5. Recipient Account Number or Identifying Number	6. Final Report <input type="checkbox"/> Yes <input type="checkbox"/> No	7. Basis <input type="checkbox"/> Cash <input type="checkbox"/> Accrual
-----------------------------------	---	---	--

8. Funding Year	9. Period Covered by the Report From: (Month, Day, Year) To: (Month, Day, Year)
-----------------	--

10. Transactions:	Cumulative
a. Total Federal outlays	
b. Refunds, rebates, etc.	
c. Net Federal outlays (Line a minus b)	
d. Recipient outlays for allowable program activities	
e. Net Federal outlays	
f. Federal share of unliquidated obligations	
g. Total Federal obligations (Line e plus f)	
h. Total Federal funds authorized for this funding period	
i. Transfers from adult program activities	
j. Transfers to adult program activities	
k. Adjusted total federal funds available	
l. Unobligated balance of Federal funds (line k minus g)	
Program income consisting of:	
m. Disbursed program income using the addition method	
n. Undisbursed program income	
o. Total program income realized (Line m plus n)	

11. Remarks: Attach any explanations deemed necessary or information required by Federal sponsoring agency in compliance with governing legislation.

12. Certification: I certify to the best of my knowledge and belief that this report is correct and complete and that all outlays and unliquidated obligations are for the purposes set forth in the award documents.

Typed or Printed Name and Title	Telephone (Area code, number and extension)
Signature of Authorized Certifying Official	Date Report Submitted

Persons are not required to respond to this collection of information unless it displays a currently valid OMB control number. Respondents obligation to reply to these reporting requirements are Mandatory (WIA; 20 CFR 652 et al). Public reporting burden for this collection of information is estimates to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestion for reducing this burden to the U.S. Department of Labor, Office of Welfare-to-Work, Room N-4716, Washington, D.C. 20210 (Paperwork Reduction Project (1205-0408)).

EXHIBIT IV

**THE COMPLETE TEXT OF
PENNSYLVANIA'S RESPONSE TO THE DRAFT
AGREED-UPON PROCEDURES REPORT**

Following this title page is the complete text of Pennsylvania's response to our agreed-upon procedures report, issued to them on August 30, 2002.



BUREAU OF WORKFORCE INVESTMENT
12TH FLOOR LABOR AND INDUSTRY BUILDING
SEVENTH AND FORSTER STREETS
HARRISBURG, PA 17120

717-787-3354

Fax: 717-783-7115

www.dstate.p

October 11, 2002

RECEIVED
US DEPARTMENT OF LABOR
2002 OCT 21 A 11: 50
INSPECTOR GENERAL
OFFICE OF AUDIT
ATLANTA, GA

Mr. Robert R. Wallace
Regional Inspector General for Audit
U.S. Department of Labor – OIG
61 Forsyth Street, S.W., Room 6T20
Atlanta, Georgia 30303-3104

Dear Mr. Wallace:

Thank you for giving the Department of Labor and Industry's Bureau of Workforce Investment the opportunity to review and comment on the draft report dated August 30, 2002, that was prepared by R. Navarro and Associates, Inc. Specifically, this report addresses financial activities involving Federal Workforce Investment Act Grant and Job Training Partnership Act Transition Funds awarded to Pennsylvania. The Bureau's primary comments in regards to this draft report are as follows:

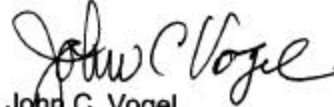
1. The Commonwealth provided to the auditing staff all of the materials they requested but were never informed of any problems that they encountered. An exit conference was never conducted.
2. In regard to the percentage of funds unexpended in procedures #3 and #5, the report indicates that, "the State spent \$168.5 million, 58.8 percent of the total funds awarded, leaving a significant portion of its funding (41.2 percent) unspent as of December 31, 2001. However, a substantial portion of these funds were just awarded in July 2001 and October 2001, and the expenditure reports were as of December 2001.
3. The Local Area obligations that are reported to the Federal level use the Department of Labor's on-line reporting system. As such these reports are prepared in accordance with the directions that are prompted by the on-line system as prescribed by both state and Federal guidelines.

For example, on the Financial Status Report for the Local Adult Program for line 10 F – the directions say Federal Unliquidated Obligations – “are obligations incurred, but for which an outlay has not yet been recorded in the grantee’s books of account. This amount should include unliquidated obligations to subgrantees and contractors.”

4. In regard to procedure #9, the report states that “\$4.1 million available cash identified represents cash drawn down in excess of costs incurred as of December 31, 2001.” However, although Pennsylvania’s Local Areas can request funds daily their expenditures are only reported once a month. Specifically, Local Areas report their expenditures on the 15th of each month following the month being reported. For example, funds that would have been requested on December 27 would have been for expenditures to be paid in January. Those expenditures for January would not have been reported until February 15. Therefore, it is the opinion of the Commonwealth that the Local Areas do not have excess cash.

Thank you, again, for the opportunity to review this document. As always, we remain available to discuss these comments with you in greater detail.

Sincerely,



John C. Vogel
Director