

STATE OF TENNESSEE

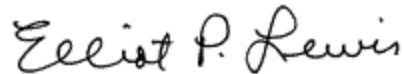
**EVALUATION OF GRANT OBLIGATIONS
AND EXPENDITURES**

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

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

JULY 1, 2000 THROUGH DECEMBER 31, 2001

This agreed-upon procedures report was prepared by Harper, Rains, Stokes and Knight, PA, under contract to the U.S. Department of Labor, Office of the Inspector General, and by acceptance it becomes a report of the Office of Inspector General.



Assistant Inspector General For Audit
U.S. Department Of Labor

Report No: 04-03-006-03-390

Date Issued: March 28, 2003

HARPER, RAINS, STOKES, & KNIGHT, P.A.

TABLE OF CONTENTS

Acronymsiii

Independent Accountant’s Report on Applying Agreed-Upon Procedures.....1

Summary of Results2

Background, Scope and Methodology3

 Background3

 Scope and Methodology.....4

Procedures and Findings5

Exhibit I – Financial Status Report, Local Adult Program Activities

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

Exhibit III – Financial Status Report, Local Youth Program Activities

Exhibit IV – The State of Tennessee’s Response

ACRONYMS

CFR	Code of Federal Regulations
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
FIFO	First-In-First-Out
FSR	Financial Status Report
FY	Fiscal Year
JTPA	Job Training Partnership Act
MER	Monthly Expenditure Report
OGCM	Office of Grants and Contract Management
OIG	Office of the Inspector General
PY	Program Year
TDOLWD	Tennessee Department of Labor and Workforce Development
WIA	Workforce Investment Act

HARPER, RAINS STOKES & KNIGHT

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

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We performed the procedures enumerated in the "Procedures and Findings" section of this report. The U.S. Department of Labor (DOL), Office of Inspector General (OIG), agreed to these procedures for evaluating the State of Tennessee's obligation and expenditure activities for available Job Training Partnership Act (JTPA) balances and Workforce Investment Act (WIA) funds, which occurred during the period July 1, 2000 through December 31, 2001.

The Tennessee Department of Labor and Workforce Development (TDOLWD) is responsible for reporting grant obligations and expenditures to the Employment and Training Administration (ETA). ETA is responsible for recording grant obligations and reported expenditures in 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 and *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 amounts reported on by the State as obligations, expenditures and unobligated balances. 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.

Harper, Rains, Stokes & Knight, P.A.

July 31, 2002

SUMMARY OF RESULTS

We obtained and summarized the WIA funds obligated and expended as of December 31, 2001, based on records available at TDOLWD. We determined that the obligation information reported by TDOLWD, as of December 31, 2001, included the actual obligations for State-wide activities. However, the portion of obligations reported on the Financial Status Reports (FSRs) attributable to Local Boards included grant funds passed to the Local Boards, not the amounts that the Local Boards had actually obligated.

We found that the accounting records supported the amounts reported as obligations and expenditures on FSRs. Procedures were established for recording transactions on the accrual basis of accounting at both State and Local program levels, in accordance with Federal regulations. However, we found one of the three Local Boards visited, the Knox County Community Action Committee, reported expenditures on the cash basis of accounting, to TDOLWD, during our review period. The amounts of expenditures reported to TDOLWD by the Local Boards were substantiated by monthly reports submitted from the Local Boards and subcontractors.

As of December 31, 2001 Tennessee had expended \$52.5 million of the \$109.7 million awarded, leaving \$57.2 million or 52.1 percent unexpended. At this rate of spending, it would take approximately twenty months to spend the remaining funds, during which time TDOLWD would receive additional WIA allocations.

TDOLWD and Local Boards charged expenditures to WIA grants on a First-In-First-Out (FIFO) basis, rather than matching Program Year (PY) expenditures with the grant awards applicable to that period.

State of Tennessee's Response

The Tennessee Department of Labor and Workforce Development provided a written response to our draft report, which is included in its entirety at Exhibit IV. In general, the State agreed with the information presented in the report, but provided additional comments. Tennessee stated that charging expenditures to WIA grants on a FIFO basis is an acceptable practice under Office of Management and Budget (OMB) Circular A-87.

Our procedures were not intended to determine Tennessee's compliance with program requirements or OMB cost principles. However, by using the FIFO basis, Tennessee does charge current expenditures to prior period funds until exhausted.

BACKGROUND, SCOPE AND METHODOLOGY

Background

WIA, enacted in 1998, was designed to reform prior Federal job training programs and create a new comprehensive workforce investment system. The new 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. WIA superseded JTPA 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 programs were authorized for transition into the WIA program. 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 the two-year period must be returned to the State.

States are required to report WIA activities on quarterly Financial Status Reports (FSRs). Accrued expenditures and obligations are key items reported on the FSRs. Accrued expenditures are reported when a valid 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 that 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, Office of Grants and Contract Management (OGCM), States have been instructed to report obligations for Statewide Activities and Rapid Response only for those amounts of funding for which a legal liability exists at the State level. Likewise, the State has been instructed to report obligations for Local Board activities (Local Administration, Youth, Adult and Dislocated Workers), only for those amounts of funding for which a legal obligation exists at the Local Board level. ETA did not clearly specify whether Local Boards' obligations or States' pass-through awards should be included on these reports.

Scope and Methodology

Our agreed-upon procedures comprise WIA funds awarded to TDOLWD for PY 2000, FY 2001, PY 2001 and FY 2002, as well as PY 1998 and PY 1999 JTPA funds transitioned into the WIA program. Procedures were applied to grant activities reported by TDOLWD and three Local Boards (Memphis Workforce Investment Network, the Knoxville – Knox County Community Action Committee and the Nashville Career Advancement Center), for the period July 1, 2000 through December 31, 2001.

In general, our procedures were designed to summarize TDOLWD's WIA financial activity (obligations and expenditures) through December 31, 2001, to determine if the amounts reported to ETA agreed with the supporting accounting records, and to measure the extent to which TDOLWD and Local Boards have obligated and expended WIA funds.

PROCEDURES AND FINDINGS

- 1. Interview the appropriate TDOLWD personnel regarding how information is accumulated from the Local Boards and about the preparation of the FSR. Using this information, verify exactly what obligations were reported on the December 31, 2001 WIA Quarterly FSRs. Determine if the amounts passed through to the Local Boards are reported as obligations on the FSRs. Based on the information obtained, determine if the State is reporting obligations as described at 20 CFR 660.300 to include subgrants awarded to subrecipients.**

As of December 31, 2001, amounts reported as “obligations” on FSRs were funds TDOLWD had allocated to Local Boards for operation of the Adult, Youth and Dislocated Worker programs, as well as amounts allocated to Local Boards for administrative expenses. Obligations for State-level activities were also included in amounts reported as Federal obligations on FSRs. The Local Boards reported financial activities to TDOLWD on Monthly Expenditure Reports (MERs). However, the Local Boards were not required to report obligations on the MERs.

According to representatives of TDOLWD, the amounts passed through to Local Boards are considered to be “obligated” at the time the funds are passed to Local Boards. Reporting of funds passed to Local Boards as “obligated” does not consider whether bona fide legal obligations exist, and may overstate reported obligations.

ETA did not provide Tennessee clear instructions interpreting 20 CFR 660.300 regarding whether Local Board obligations or State pass-through awards should have been included on the FSRs. Based on our review of schedules and detail reports provided as support for the FSRs, we determined that obligations reported on the FSRs included amounts awarded as subgrants to subrecipients. Consequently, TDOLWD is reporting obligations as defined in 20 CFR 660.300.

- 2. Determine how TDOLWD tracks the various funding periods for both TDOLWD activities and Local Board activities, and if data is accounted for in a manner that will allow expenditures to be matched against the appropriate obligation.**

Based on discussions with representatives of TDOLWD, as well as examination of financial records at TDOLWD and Local Boards, we determined that TDOLWD does not match expenditures with the appropriate fiscal period’s funding. Rather, expenditures of a given period are charged against the earliest available funding.

Expenditure information reported to TDOLWD by the Local Boards was identified by funding period; however, reported expenditures were charged to the earliest year that funding was available, rather than the year in which the expenditures occurred. As a result, we could not match a program’s cost with the period for which it was funded.

3. Determine if the expenditure information (Outlays on the December 31, 2001 FSRs) was reported on the accrual basis of accounting as required at 29 CFR 97 and the WIA reporting instructions at 20 CFR 667.300 (c) (3).

As discussed in greater detail at item 8 of this report, MERs consist of the same general format as the Federal FSR. These monthly reports detail, among other things, the amounts of accrued expenditures incurred to date, by the Local Boards. These amounts then roll up into the Federal FSR as “Outlays”.

We reviewed the instructions provided by TDOLWD to the Local Boards and determined that the amounts reported as “accrued expenditures” should include expenditures that have been incurred, but for which payment has not been made by the Local Boards. This manner of reporting is consistent with the accrual basis of accounting, as required by 29 CFR 97 and the instructions at 20 CFR 667.300.

We made specific inquiries of Local Board officials regarding the inclusion of accruals in the amounts reported as expenditures to TDOLWD. Representatives from two of the Local Boards stated that amounts reported as expenditures included accruals, as the instructions required. However, the Knox County Community Action Committee reported expenditures on a cash basis, for most of our review period.

4. Determine what information is required to be reported by the Local Boards to TDOLWD, including the content, format, frequency and any written instructions issued by TDOLWD. Obtain copies of reports submitted by the Local Boards and copies of written instructions.

Our review of the Financial Management Handbook, established by TDOLWD and distributed to the Local Boards, and discussions with representatives of TDOLWD, revealed that the Local Boards are required to report specific financial data to TDOLWD on a monthly basis. MERs are submitted for each month of the fund availability period.

We reviewed copies of the MERs for the quarter ending December 31, 2001. As required by the Handbook, the MERs included total Federal funds available, monthly and cumulative expenditures. Obligation information was neither reported on the MERs nor captured by the Local Boards’ financial systems.

5. Obtain or prepare from documents supporting the FSRs, a summary of the FSRs from the Local Boards and analyze this information to select the Local Boards to visit.

We prepared a report using the FSRs which detailed, by funding stream, the amounts of Allocations, Expenditures and Expenditures expressed as a percentage of Allocations. Utilizing this report, we made a judgmental selection of three Local Board offices in which to conduct fieldwork. The Local Boards selected

for site visits were the Memphis Workforce Investment Network, the Knoxville – Knox County Community Action Committee and the Nashville Career Advancement Center offices.

6. Compare the information compiled at ETA to the reports prepared by TDOLWD and explain any differences determined.

We examined the FSRs reported by TDOLWD to DOL, and compared them to the corresponding data compiled by ETA. The information on the FSRs was consistent with the information compiled by ETA. Key elements of the FSR data were extracted from the reports, including Total Federal Funds Authorized, Obligations, Outlays (accrued expenditures), and the Unobligated Balance of Federal Funds for each funding stream, PY and FY. This extracted data was then used to perform the analytical procedures as described at item 7 of this report.

7. Perform an analytical review of the information obtained to develop trend information and investigate any unusual relationships noted.

Total Federal Funds Authorized

The table below shows the total WIA funds awarded by DOL to TDOLWD 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	\$ 2,089,584
PY 1999	JTPA transition	June 30, 2002	\$ 9,236,967
PY 2000	July 1, 2000	June 30, 2003	\$ 27,717,109
FY 2001	October 1, 2000	June 30, 2003	\$ 23,061,870
PY 2001	July 1, 2001	June 30, 2004	\$ 27,830,587
FY 2002	October 1, 2001	June 30, 2004	\$ 20,735,770
<u>Less:</u>	Rescission of PY 2001 funds		(\$ 965,444)
	Total Awards		\$ 109,706,443

WIA funds are awarded on a PY basis, from July 1 to June 30, except for Youth grants, which are available in the April preceding the start of the PY. However, a portion of PY 2000 and 2001 funding denoted as “FY” above, was not available until October 1 of each respective PY.

7. (Continued)

WIA Funds Obligated

The data presented below reflect the total WIA funds reported to ETA as obligated by TDOLWD, as of December 31, 2001.

Funding Period	Total Funds Awarded (in millions)	Total WIA Funds Obligated (in millions)	Amount Unobligated (in millions)	Percent of Funding Unobligated
PY 1998	\$ 2.1	\$ 2.1	\$ 0.0	0.0%
PY 1999	\$ 9.2	\$ 9.2	\$ 0.0	0.0%
PY 2000	\$ 27.7	\$ 27.7	\$ 0.0	0.0%
FY 2001	\$ 23.1	\$ 20.8	\$ 2.3	9.8%
PY 2001	\$ 27.8	\$ 26.0	\$ 1.8	6.6%
FY 2002	\$ 20.7	\$ 16.1	\$ 4.6	22.2%
Less: PY 2001 Rescission	(\$ 1.0)	N/A	(\$ 1.0)	N/A
Total	\$ 109.7	\$ 101.9	\$ 7.8	7.1%

Note: Information in the above table was obtained from the quarterly Financial Status Reports prepared by TDOLWD and summarized. Additionally, a portion of PY 2001 funding was rescinded as noted above. In some instances, the individual amounts in the above columns do not sum to the amount presented as the total due to rounding differences.

As discussed further at item 1 of this report, in addition to obligations made at the State level, TDOLWD reported funds to be “obligated” upon allocation to Local Boards. Of the total \$109.7 million of funding available, \$7.8 million (7.1 percent) remained unobligated, as of December 31, 2001.

7. (Continued)

Total Federal Expenditures

The following summary reflects the total WIA expenditures reported by TDOLWD, through December 31, 2001. These amounts are recorded in DOL's general ledger.

Funding Period	Total Funds Awarded (in millions)	Total Expenditures (in millions)	Amount Unspent (in millions)	Percent of Funding Unspent
PY 1998	\$ 2.1	\$ 2.1	\$ 0.0	1.9%
PY 1999	\$ 9.2	\$ 8.0	\$ 1.3	13.5%
PY 2000	\$ 27.7	\$ 22.6	\$ 5.1	18.4%
FY 2001	\$ 23.1	\$ 14.5	\$ 8.6	37.2%
PY 2001	\$ 27.8	\$ 5.0	\$ 22.9	82.1%
FY 2002	\$ 20.7	\$ 0.4	\$ 20.4	98.2%
Less: PY 2001 Rescission	(\$ 1.0)	N/A	(\$ 1.0)	N/A
Total	\$ 109.7	\$ 52.5	\$ 57.2	52.1%

Note: Information in the above table was obtained from the quarterly Financial Status Reports prepared by TDOLWD and summarized. Additionally, a portion of PY 2001 funding was rescinded as noted above. In some instances, the individual amounts in the above columns do not sum to the amount presented as the total due to rounding differences.

Of \$109.7 million in total WIA funds awarded to TDOLWD, they spent \$52.5 million (47.9 percent), leaving a significant portion of their funding (52.1 percent) unspent as of December 31, 2001. At this rate of spending, it would take approximately twenty months to spend the remaining funds, during which time TDOLWD would receive additional WIA allocations.

7. (Continued)

Expenditure Analysis by Funding Stream

The following provides a summary of the unspent funding by program component:

Program Component	Amount Awarded (in millions)	Amount Unspent (in millions)	Percent of Funding Unspent
<u>Local Board Activities:</u>			
Adults	\$ 29.8	\$ 14.7	49.3%
Dislocated Worker	\$ 16.8	\$ 7.0	41.7%
Local Admin	\$ 8.6	\$ 4.3	50.0%
Youth	\$ 30.9	\$ 18.4	59.5%
Total Local Board Activities	\$ 86.0	\$ 44.4	51.6%
<u>State Activities:</u>			
State-wide Activities	\$ 16.7	\$ 11.0	65.9%
State-wide Rapid Response	\$ 7.9	\$ 2.9	35.7%
Total State Activities	\$ 24.7	\$ 13.8	55.9%
Less: PY 2001 Rescission	(\$ 1.0)	(\$ 1.0)	N/A
Total Funding	\$ 109.7	\$ 57.2	52.1%

Note: Information in the above table was obtained from the quarterly Financial Status Reports prepared by TDOLWD and summarized. Additionally, a portion of PY 2001 funding was rescinded as noted above. In some instances, the individual amounts in the above columns do not sum to the amount presented as the total due to rounding differences.

The expenditure data submitted by TDOLWD through December 31, 2001, indicates that the majority of WIA funds at both TDOLWD and Local Boards were not spent as of that date (55.9 percent and 51.6 percent, respectively).

8. **Interview the appropriate Local Board personnel regarding how information is accumulated and about the preparation of the Local Board reports to TDOLWD. Inquire as to the source of obligation, cost and/or payment information reported to TDOLWD by the Local Board, and determine if the information reported agrees with the corresponding source accounting records.**

Through discussions with Local Board personnel, we determined that expenditure information, as well as funding availability by period, is reported by the Local Boards to TDOLWD using the MERs. We obtained copies of these reports from TDOLWD, as well as the Local Boards during our visits. The information on the MERs shows the Federal fund allocation for each year, in addition to the cumulative and monthly expenditures.

In conjunction with the MERs, we reviewed the source accounting records at the three Local Boards we visited, in order to determine if they agreed to the information reported to the State. In all instances, the Local Boards provided us with documentation supporting the amounts reported as expenditures. However, TDOLWD does not require that Local Boards track or report obligations on the MERs.

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

The Local Boards employ FIFO methodology in associating period expenditures with funding sources. This methodology does not allow for the matching of a particular period's expenditures with the funding allotted to that period. As such, expenditures reported by the Local Board are not matched with the funding applicable to the period in which they are incurred, rather they are charged against prior period remaining funds until these funds have been exhausted and then charged against subsequent periods' funding.

For example, any amount of PY 2000 funding that remained after PY 2000 had lapsed was used to satisfy a subsequent period's expenditures until all of PY 2000 funding was exhausted. FY 2001 funding would have subsequently been used to satisfy the period's expenditures. Matching a period's expenditures against prior period funding dissociates the funding allotted to a specific period from the costs of that period.

- 10. Determine how the Local Board defines an obligation and the point at which funds are considered to be obligated. Determine if the Local Board definition includes only anticipated expenditures to meet bona fide needs of the funding program year and for which a legal liability exists.**

At the three Local Boards visited, representatives indicated that the “obligation” of funds coincides with the decision by the Local Boards to award funding to a particular entity/subcontractor to perform services under WIA. Funds are awarded in anticipation of making payments to subcontractors, in order to meet bona fide needs of the WIA program. Awards are accompanied by Local Boards signing contracts with subcontractors. Consequently, valid obligations are created.

Thus, this definition includes only anticipated expenditures to meet bona fide needs for which a legal liability exists. However, as mentioned at item number 9 of this report, there is no appropriate matching of the funding year and program year due to TDOLWD’s and Local Boards’ use of FIFO methodology and as mentioned at item number 8 of this report, the Local Boards neither track nor do they report obligations to TDOLWD.

EXHIBIT I

**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 II

**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: 02/29/04	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 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	
<small>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 (1205-0406)).</small>			

ETA 9076-F (May 2000)

EXHIBIT III

**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 estimated 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)).

ETA 9076-D (May 2000)

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

Following this title page is the complete text of Tennessee's response to our agreed-upon procedures report, issued to them on February 14, 2003.



STATE OF TENNESSEE
DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT

Andrew Johnson Tower
710 James Robertson Pkwy., 8th Floor
Nashville, TN 37243-0655
(615) 741-6642

PHIL BREDESEN
GOVERNOR

JAMES G. NEELEY
COMMISSIONER

February 28, 2003

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:

Below are our comments regarding the draft report on applying agreed-upon procedures as it relates to financial activities involving Workforce Investment Act (WIA) grant and Job Training Partnership Act transition funds awarded to Tennessee.

Summary of Results

1. We obtained and summarized the WIA funds obligated and expended as of December 31, 2001, based on records available at Tennessee Department of Labor and Workforce Development (TDOLWD). We determined that the obligation information reported by TDOLWD, as of December 31, 2001, included the actual obligations for statewide activities. However, the portion of obligations reported on the Financial Status Reports (FSRs) attributable to Local Boards included grant funds passed to the Local Boards, not the amounts that the Local Boards had actually obligated.

Comments:

We concur with the summary statement as shown above; however, we do not believe this to be contrary to Federal opinion on this issue. The State has a legal obligation to the Local Boards due to the contractual relationship of awarding funds based on formularies through contracts signed by both parties. TDOLWD FSR obligations as the grantee are at the state level.

Summary of Results

2. We found that the accounting records supported the amounts reported as obligations and expenditures on FSRs. Procedures were established for recording transactions on the accrual basis of accounting at both State and Local program levels, in accordance with Federal regulations. However, we found one of the three Local Boards visited, the Knox County Community Action Committee, reported expenditures on the cash basis of accounting, to TDOLWD, during our review period. The amount of expenditures reported to TDOLWD by the Local Boards were substantiated by monthly reports submitted from the Local Boards and subcontractors.

Comments:

TDOLWD had issued specific instructions to all Local Areas prior to the December 31, 2001 quarterly reporting period to accrue expenditures for quarterly reporting purposes. Even if the Local Area's books are maintained on a cash basis, they are to prepare and maintain documentation of accruals applicable to the period reported. The Federal Status Reports were accurate based upon the information received by TDOLWD.

Summary of Results

3. As of December 31, 2001, Tennessee had expended \$52.5 million of the \$109.7 million awarded, leaving \$57.2 million or 52.1 percent unexpended. At this rate of spending, it would take approximately twenty months to spend the remaining funds, during which time TDOLWD would receive additional WIA allocations.

Comments:

We concur with the amount of unexpended funds; however, TDOLWD would like to include in the summary that \$20.7 million of the unexpended \$57.2 million amounts or 36.2 percent unexpended is from funding received on October 1, 2001, just three months prior to issuance of the report. Given that WIA allocations are available for expenditure for a period of three years, TDOLWD is comfortable with this level of expenditures during the first eighteen months into this program. Since December 31, 2001, TDOLWD has been overwhelmed with requests from Local Areas for additional funding due to layoffs and plant closures.

Robert R. Wallace
Page 3
February 24, 2003

Summary of Results

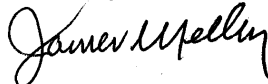
4. TDOLWD and Local Boards charged expenditures to WIA grants on a First-In-First-Out (FIFO) basis, rather than matching Program Year (PY) expenditures with the grant awards applicable to that period. If the FIFO methodology of charging costs had not been used, any expired funds would have been returned to the U.S. Department of Labor (USDOL).

Comments:

The above statement makes it appear that funding periods are not being observed in recording expenditures. The Local Areas have two years in which to expend funds given during any one funding period. Since funding period's overlap, expenditures for a similar program are allowable under that program for any funding period remaining unexpended during the entire period. If funding remains in the oldest available period after obligations for that period are exhausted, allowable expenditures are reported to use remaining balances where possible. This is an acceptable practice under OMB Circular A-87(C)(3)(c) "...would not preclude governmental units from shifting costs that are allowable under two or more awards in accordance with existing program agreements." As of the December 31, 2001 reports, the only funding under WIA that had expired was the PY 1998 funding rolled from JTPA. From these expired funds TDOLWD returned to the USDOL \$43,238 in unexpended availability.

The Tennessee Department of Labor and Workforce Development appreciates the opportunity to comment on this draft report. We look forward to receiving further guidance from the Employment Training Administration (ETA), Office of Grants and Contract Management (OGCM).

Sincerely,



James G. Neeley

JGN:ESP:TLM