

STATE OF CALIFORNIA

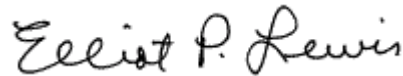
**EVALUATION OF GRANT OBLIGATIONS
AND EXPENDITURES**

**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, P.A., 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: 04-03-011-03-390

Date Issued: March 28, 2003

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

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ACRONYMS

CFR	Code of Federal Regulations
DOL	U.S. Department of Labor
EDD	California Employment Development Department
ETA	Employment and Training Administration
FIFO	First-In-First-Out
FSR	Financial Status Report
FY	Fiscal Year
JTPA	Job Training Partnership Act
OGCM	Office of Grants and Contract Management
OIG	Office of the Inspector General
PY	Program Year
QER	WIA Quarterly Expenditure Report
WIA	Workforce Investment Act
WIB	Workforce Investment Board (Local Board)

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 California'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 California Employment Development Department (EDD) 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 the procedures performed is the responsibility of OIG. 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.

August 30, 2002

SUMMARY OF RESULTS

We obtained and summarized the WIA funds obligated and expended by the State of California as of December 31, 2001. We determined that the obligation information reported by the State included actual obligations for Local Boards and Statewide activities.

We found that the accounting records supported the amounts reported as obligations and expenditures on quarterly Financial Status Reports (FSRs). Procedures were established for recording transactions on the accrual basis of accounting in accordance with Federal regulations. However, we found that one of the three Workforce Investment Boards (WIBs) visited, the Sacramento Employment and Training Agency, reported expenditures on the cash basis of accounting during our review period. Supporting schedules and detailed reports substantiated the amounts of expenditures reported to EDD by the WIBs.

As of December 31, 2001, California had expended \$680.1 million, or 52 percent of the \$1,308.1 million awarded, leaving \$628 million or 48 percent unexpended. At this rate of spending, it would take approximately 17 months to spend the remaining funds, during which time EDD would receive additional WIA allocations.

The EDD and WIBs charged expenditures to WIA grants on a First-In-First-Out (FIFO) basis, rather than matching Program Year (PY) expenditures with the grant applicable to the period in which the expenditures occurred. If the FIFO methodology of charging cost had not been used, expired funds would have been returned to DOL.

State of California's Response

California's written response to our draft report is included in its entirety at Exhibit II. In general, the State agreed with the information presented in the report, but provided additional comments. California stated that charging expenditures to WIA grants on a FIFO basis is not prohibited, and is an accepted practice. California also stated they would continue to report only those amounts for which a legal liability exists as obligations.

Our procedures were not intended to determine California's compliance with program requirements. Our report described actual reporting practices and their effect.

By using a FIFO methodology, California does charge current expenditures to prior period funds until exhausted. Therefore, FIFO accounting for expenditures ensures total consumption of program year appropriations, even though all of a particular year's funds may not have been needed.

We did not indicate that the manner in which the State reported obligations was not in compliance with WIA requirements. We merely stated that California's definition of "obligations" is not consistent with that of 20 CFR 660.300.

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. The WIA superseded the JTPA and amended the Wagner-Peyser Act.

Initial grants for the WIA program were awarded by DOL, ETA, beginning in 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 a 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] (emphasis added).

However, according to ETA, Office of Grants and Contract Management (OGCM), States have been verbally instructed to report obligations for Statewide Activities and Rapid Response only for those amounts of funding for which a legal obligation 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 had not clearly specified whether Local Boards' obligations or States' pass-through awards should be included on FSRs.

Scope and Methodology

Our agreed-upon procedures comprise WIA funds awarded to California 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 the State and three Local Boards (Alameda County Workforce Investment Board, Sacramento Employment and Training Agency and Los Angeles County Workforce Investment Board), from July 1, 2000 through December 31, 2001.

In general, our procedures were designed to summarize California'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 the State and Local Boards have obligated and expended WIA funds.

PROCEDURES AND FINDINGS

- 1. Interview the appropriate EDD personnel regarding how information is accumulated from the WIBs and about the preparation of the FSRs. 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 WIBs are reported as obligations on the FSRs. Based on the information obtained, determine if EDD is reporting obligations as described at 20 CFR 660.300 to include subgrants awarded to subrecipients.**

As of December 31, 2001, the amounts reported as “obligations” on all FSRs (Adult, Youth, Dislocated Worker, Administrative, Rapid Response and Statewide Activities) represented legal obligations to service providers. The WIBs report to EDD using Quarterly Expenditure Reports (QERs) that are comparable to the FSRs used by EDD to report obligations to the DOL. QERs are required to be submitted to EDD no later than 20 calendar days after the end of each calendar quarter.

According to representatives of EDD, funds allocated to WIBs are not reported as obligations until such time as a contract exists between a service provider and the WIBs. This manner of reporting obligations is the same at the State level. In the opinion of EDD representatives, the existence of a contract between a service provider and either the State of California or a WIB constitutes a legal liability. As a result, EDD is reporting the amounts of “actual” obligations at the WIB level rather than merely reporting the amounts allocated to the WIBs.

Based on our review of schedules and detail reports provided as support for the FSRs, we determined that obligations reported on all FSRs represented bona fide legal liabilities. California is reporting obligations only to the extent to which they have been legally obligated at either the State or Local Board levels. The State does not report obligations as defined in 20 CFR 660.300 which would include all funds allocated to the WIBs, not just funds legally obligated.

2. Determine how EDD tracks the various funding periods for both EDD activities and WIB 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 EDD as well as examination of financial records at EDD and Local Boards, we determined that EDD does not always match expenditures with the appropriate fiscal period's funding. Rather, current expenditures are charged against the earliest available funding.

Expenditure information reported to EDD by the WIBs was identified by funding period; however, reported expenditures were charged to the earliest year that funding remained available, rather than the year in which the expenditures occurred. As a result, a program's cost could not be matched 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, QERs contain the same general format as the Federal FSR. These quarterly reports detail, among other things, the amounts of expenditures incurred to date by the WIBs. These amounts then roll up into the Federal FSR as "Outlays".

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

We made specific inquiries of WIB officials regarding the inclusion of accruals in the amounts reported as expenditures to EDD. Representatives of the WIBs stated that amounts reported as expenditures included accruals as the instructions required. However, Sacramento Employment and Training Agency (SETA) reported expenditures on the cash basis for the first three quarters of each program year. Then for the fourth quarter, the accrual basis was used to report expenditures.

- 4. Determine what information is required to be reported by the WIBs to EDD, including the content, format, frequency and any written instructions issued by EDD. Obtain copies of reports submitted by the WIBs and copies of written instructions.**

Our review of the Fiscal Reporting Instruction Guidelines and Quarterly Financial Reporting Requirements established by EDD and distributed to the WIBs and discussions with representatives of EDD revealed that the WIBs are required to report Federal funds available, accrued expenditures, unliquidated obligations, and, where applicable, any program income or stand-in cost. The QERs did not include obligations. However, we were able to determine obligations using the information that was reported to EDD on the QERs.

- 5. Obtain or prepare from documents supporting the FSRs, a summary of the QERs from the WIBs and analyze this information to select the WIBs to visit.**

We summarized information included in the “Cumulative Expenditure to Date WIA Report” prepared by EDD which detailed, by funding stream for each funding year, the amounts of Allocations, Program Expenditures, Program Unliquidated Obligations and Program Obligations. Utilizing this information, we made a judgmental selection of three WIB offices in which to conduct fieldwork. The WIBs selected for site visits were the Sacramento Employment and Training Agency, the Alameda County WIB, and the Los Angeles County WIB.

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

We examined the FSRs reported by EDD to the DOL, and compared them to the corresponding data compiled at ETA. The information on the FSRs agreed to the information compiled at 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 for each 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 the DOL to EDD 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	\$ 1,727,184
PY 1999	JTPA transition	June 30, 2002	\$ 88,189,823
PY 2000	July 1, 2000	June 30, 2003	\$ 310,532,857
FY 2001	October 1, 2000	June 30, 2003	\$ 319,358,288
PY 2001	July 1, 2001	June 30, 2004	\$ 311,857,976
FY 2002	October 1, 2001	June 30, 2004	\$ 299,455,979
<u>Less:</u>	Rescission of PY 2001 funds		(\$ 23,003,656)
		Total Awards	\$ 1,308,118,451

WIA funds are awarded on a PY basis from July 1 to June 30, except for Youth grants that are available in 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

Data presented below reflects total WIA funds obligated by EDD as of the quarter ended 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	\$ 1.7	\$ 1.7	\$ 0.0	0.0 %
PY 1999	\$ 88.2	\$ 87.4	\$ 0.8	0.9 %
PY 2000	\$ 310.5	\$ 295.7	\$ 14.8	4.8 %
FY 2001	\$ 319.4	\$ 281.9	\$ 37.5	11.7 %
PY 2001	\$ 311.9	\$ 206.0	\$ 105.9	34.0 %
FY 2002	\$ 299.5	\$ 118.4	\$ 181.1	60.5 %
Less: PY 2001 Rescission	(\$ 23.0)	N/A	(\$ 23.0)	N/A
Total	\$ 1,308.1	\$ 991.0	\$ 317.1	24.2 %

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

Because EDD does not report funding as obligated until such time as a legal liability exist for the funding, they reported only 75.8 percent of their funds as being obligated. Of the total \$1,308.1 million available, \$317.1 million (24.2 percent) remained unobligated as of December 31, 2001.

7. (Continued)

Total Federal Expenditures

The following summary reflects total WIA expenditures reported by EDD 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)	% of Funding Unexpended
PY 1998	\$ 1.7	\$ 1.7	\$ 0.0	0.0 %
PY 1999	\$ 88.2	\$ 81.2	\$ 7.0	7.9 %
PY 2000	\$ 310.5	\$ 260.2	\$ 50.3	16.2 %
FY 2001	\$ 319.4	\$ 224.9	\$ 94.5	29.6 %
PY 2001	\$ 311.9	\$ 81.6	\$ 230.3	73.8 %
FY 2002	\$ 299.5	\$ 30.5	\$ 268.9	89.8 %
Less: PY 2001 Rescission	(\$ 23.0)	N/A	(\$ 23.0)	N/A
Total	\$ 1,308.1	\$ 680.1	\$ 628.0	48.0 %

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

Of the \$1,308.1 million WIA funds awarded to EDD, the State spent \$680.1 million (52 percent) leaving \$628 million (48 percent) unspent as of December 31, 2001.

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 Unexpended
WIB Activities:			
Adults	\$ 288.7	\$ 98.9	34.3 %
Dislocated Worker	\$ 307.6	\$ 139.9	45.5 %
Local Admin	\$ 97.6	\$ 49.4	50.6 %
Youth	\$ 285.1	\$ 129.3	45.4 %
Total WIB Activities	\$ 979.1	\$ 417.4	42.6 %
EDD Activities:			
State-wide Activities	\$ 209.3	\$ 135.4	64.7 %
State-wide Rapid Response	\$ 142.8	\$ 98.2	68.8 %
Total State Activities	\$ 352.0	\$ 233.6	66.4 %
Less: PY 2001 Rescission	(\$ 23.0)	(\$ 23.0)	N/A
Total Funding	\$ 1,308.1	\$ 628.0	48.0 %

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

The expenditure data submitted by EDD through December 31, 2001, indicates that a significant amount of WIA funds at both the State and WIB levels was not spent as of that date (66.4 percent and 42.6 percent, respectively).

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

Through discussions with WIB personnel, we determined that obligation and expenditure information, as well as the funding availability by period is reported by the WIBs to EDD using QERs. As mentioned at item number 4 of this report, there is no separate line item for obligations on the QERs.

We obtained copies of these reports at EDD as well as the WIB level during our visits to sites. The QERs include the Federal funds allocated for each PY and FY in addition to expenditures, refunds and rebates. It also discloses the amounts designated as “unliquidated” obligations by the WIBs, in addition to any program income or stand-in cost.

In conjunction with the QERs, we reviewed the source accounting records at the three WIBs we visited, in order to determine if they supported the information reported to EDD. In all instances, the WIBs provided us with documentation supporting the amounts reported as obligations and expenditures.

- 9. Determine how the WIB 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 WIBs 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 WIB are not matched with the funding in which they were obligated, rather they are charged against prior period remaining funds until these funds have been exhausted and then matched against subsequent periods’ funding.

For example, any amount of PY 2000 funding that remained after PY 2000 had lapsed would be used to satisfy a subsequent period’s expenditures until all of PY 2000 funding was exhausted. PY 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 cost of that period.

- 10. Determine how the WIB defines an obligation and the point at which funds are considered to be obligated. Determine if the WIB 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 WIBs visited, representatives indicated that the “obligation” of funds coincides with the decision to contract for services under WIA. Funds are obligated in anticipation of making payments to contractors for bona fide needs of the WIA program. The signing of a contract between the WIB and a contractor results in a legal liability. Thus, the Local Board’s 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 EDD’s and WIBs’ use of FIFO methodology.

SAMPLE FINANCIAL STATUS REPORT

Following this title page is a WIA financial status report used to report program activities to DOL.

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

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

Following this title page is the complete text of California's response to our agreed-upon procedures report, issued to them on February 28, 2003.

March 24, 2003
78:169

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

Dear Mr. Wallace:

This letter is the California Employment Development Department's (EDD) response to the Department of Labor (DOL), Office of Inspector General, draft report for financial activities involving Workforce Investment Act (WIA) grant and Job Training Partnership Act transition funds awarded to California. Below is the EDD's response.

- Page 2 contains the statement, "The EDD and Workforce Investment Boards (WIB) charged expenditures to WIA grants on a First-In-First-Out (FIFO) basis, rather than matching Program Year (PY) expenditures with the grant applicable to the period in which the expenditures occurred. If the FIFO methodology of charging cost had not been used, expired funds would have been returned to DOL."

EDD's Response

1) The FIFO basis of accounting is an accepted accounting practice;
2) The EDD is not aware of any requirement in WIA law or regulation to match PY expenditures to the federal grant awarded in that same PY, only that PY expenditures must be paid out of currently-available funding; i.e., funds received in a subsequent PY may not be used to pay for costs incurred in a previous PY; 3) Given that the audit examined California's WIA obligations and expenditures as of December 31, 2001, which is six months prior to the date on which the earliest of the audited funds would have expired, there was no way of knowing whether expired funds would have been returned to the DOL. California did not return any PY 00 funds to the DOL, and does not anticipate returning any PY 01 funds to the DOL.

- Page 5 contains the statement, "The State does not report obligations as defined in 20 CFR 660.300, which would include all funds allocated to the WIBs, not just funds legally obligated."

EDD's Response

As noted on page 3 of the report, the DOL, ETA verbally instructed states to report only those amounts for which a legal obligation exists. The written instructions issued by DOL, ETA, in November 2002, said that obligations should not reflect the State's obligation of funds to the local areas for formula Adult, Youth, and Dislocated Worker funds, but should reflect the State's obligation of 15 percent and 25 percent funds to local areas. California plans to continue reporting obligations as instructed by the DOL, ETA.

- Page 12, item 9, states the WIB-employed FIFO methodology does not allow for the matching of a particular period's expenditures with the funding allotted for that period.

EDD's Response

As stated in the response for the first bullet above, the use of FIFO is an accepted accounting practice. In addition, the expenditures can be matched back to a particular obligation or subgrant agreement.

If you have any questions regarding this response, please contact Mr. Dennis Lloyd, Chief, Audit and Evaluation Division, at (916) 654-7000.

Sincerely,

MICHAEL S. BERNICK
Director

cc: Stephen J. Smith, LWDA, C-25