

March 24, 2003
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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