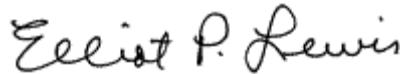


**U.S. DEPARTMENT OF LABOR
EVALUATION OF GRANT CLOSEOUT
PRACTICES APPLIED TO
JOB TRAINING PARTNERSHIP ACT GRANTS
GRANTS AWARDED TO THE COMMONWEALTH
OF KENTUCKY**

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

JULY 1, 1997 THROUGH JUNE 30, 2000

R. Navarro & Associates, Inc. prepared this report 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.



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

Report No.: 04-03-015-03-340
Date Issued: May 5, 2003

R. NAVARRO & ASSOCIATES, INC.

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ACRONYMS

BTADD	Buffalo Trace Area Development District
CWD	Cabinet for Workforce Development
DOL	U.S. Department of Labor
EKCEP	Eastern Kentucky Concentrated Employment Program, Inc.
ETA	Employment and Training Administration
FSR	Financial Status Report
FY	Fiscal Year
SFY	State Fiscal Year
JTPA	Job Training Partnership Act
NOO	Notice of Obligation
OIG	Office of the Inspector General
PY	Program Year
SEFA	Schedule of Expenditures of Federal Awards
WIA	Workforce Investment Act

Mr. Elliot P. Lewis
Assistant 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. The U.S. Department of Labor (DOL), Office of Inspector General (OIG), agreed to these procedures. We completed the procedures solely to assist OIG in evaluating the Commonwealth of Kentucky's closeout practices for Job Training Partnership Act (JTPA) grants awarded by the DOL Employment and Training Administration (ETA) from July 1, 1997 through June 30, 2000.

Management of the Commonwealth of Kentucky is responsible for closing JTPA grants in accordance with applicable regulations and requirements established by ETA. ETA is responsible for processing and certifying grant closure, and recording final obligation, expenditure and payment information 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, 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 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.

May 16, 2002

R. Navarro & Associates, Inc.

SUMMARY OF FINDINGS

The Commonwealth of Kentucky, Cabinet for Workforce Development (CWD) submitted its Job Training Partnership Act (JTPA) closeout package to the U.S. Department of Labor (DOL), Employment and Training Administration (ETA), on October 18, 2001, after requesting an extension through October 15, 2001. We obtained the final JTPA expenditures reported on the final closeout report, and found that the expenditures reported reconciled to the CWD's accounting records. In addition, the final expenditures reported were reasonable based on amounts previously reported to ETA.

The JTPA program was audited as a major program in Kentucky's single audits for State Fiscal Year (SFY) 2000 and SFY 1999. Two findings from the single audit reports remain unresolved, as follows:

1. In the SFY 1999 Single Audit, the auditors found that the Cabinet for Workforce Development, Department for Employment Services, inappropriately transferred JTPA expenditures among the various SubCommonwealth Grantees (SSGs). This finding was not fully resolved as of the SFY 2000 single audit.
2. In the SFY 1999 and SFY 2000 Single Audits, the auditors reported that the Cabinet for Workforce Development, Department for Training and ReEmployment, did not sufficiently track required subrecipient audits. In both years, the auditors noted several instances in which the DTR did not obtain, review, reconcile, and/or resolve subrecipient audits in a timely manner.

We visited two subrecipients, Eastern Kentucky Concentrated Employment Program, Inc. (EKCEP) and Buffalo Trace Area Development District (BTADD) and found that final expenditures reported to the Commonwealth did not fully reconcile to the subrecipients' accounting records, as follows:

1. EKCEP issued an Awardee's release for \$18,711,893, however, the supporting documentation was for \$19,314,324, resulting in a difference of \$602,431. EKCEP had previously reported the \$602,431 to CWD on the June 1999 Final Expense Report. The Commonwealth correctly included the \$602,431 in the reports to ETA. A corrected release has not been submitted by EKCEP to the CWD; however, there was no dollar effect on the costs reported to ETA.
2. BTADD had a \$213,172 difference between the Awardee's release and actual expenditures. A revised Awardee's release was subsequently submitted to CWD showing the corrected amount.

Commonwealth of Kentucky's Response

The Commonwealth of Kentucky did not have any written comments on our draft report. Kentucky's response is included in its entirety at Exhibit I.

BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

Background

The JTPA was enacted in 1982 to provide job training programs which would afford disadvantaged youth and adults with the training necessary to obtain productive employment. The JTPA program was repealed on June 30, 2000, when ETA implemented a successor program, authorized by the Workforce Investment Act. The closeout of active JTPA grants began in July 1999, with final closeouts due no later than December 31, 2000. Unspent funds from the PY 1998 and PY 1999 JTPA State grants were authorized for transition into the WIA program.

All JTPA closeout information is sent to the DOL, ETA, Office of Grant and Contract Management, Division of Resolution and Appeals. According to 20 CFR, Part 627.485, JTPA grants should normally have been closed within 90 days after the time limitation for expenditure of JTPA funds. For PY 1997 grants, the 90-day limitation expired September 30, 2000. However, in certain instances, ETA extended the reporting beyond that specified in the program regulations. According to instructions set forth by ETA in the *JTPA Financial Closeout Technical Assistance Guide*, final JTPA financial reports for PY 1998 and PY 1999 grants should have been submitted no later than December 31, 2000.

Objectives, Scope and Methodology

In general, our procedures were designed to determine if: the Commonwealth of Kentucky closed its JTPA grants on a timely basis in accordance with ETA instructions; amounts reported in the closeout packages and/or the final cost reports were reasonable and supported by the Commonwealth's and subrecipients' accounting records; and there were unresolved audit findings pertaining to JTPA awards.

Our agreed-upon procedures include the JTPA funds awarded to the Commonwealth of Kentucky for PYs 1997, 1998 and 1999, and FYs 1997 and 1998. Procedures were applied to grant activities reported by the State and two subrecipients, Eastern Kentucky Concentrated Employment Program, Inc. and Buffalo Trace Area Development District, on final closeout reports.

PROCEDURES AND FINDINGS

1. Identify the Commonwealth's JTPA grants to be included in the scope of these procedures, and the obligations and final reported expenditures related to each.

The JTPA grants awarded to the Commonwealth and included in the scope of these procedures are as follows:

Year and Title	Federal Obligations Per NOO	Per Grantee Closeout		Net Expenditures (Computed)
		Total Reported Expenditures	Inter-title Transfers	
PY 97 II & IIIF	\$ 28,475,979	\$ 29,085,531	\$ 2,238,412	\$ 26,847,119
FY 97 II B	13,445,916	11,207,504	(2,238,412)	13,445,916
PY 97III EDWAA-D	12,336,150	11,297,590	0	11,297,590
PY 98 II & IIIF	35,876,644	29,272,502	2,046,482	27,226,020
FY 98 IIB	14,861,254	12,375,244	(2,046,482)	14,421,726
PY 99 IIB & IIC	15,724,321	6,890,917	0	6,890,917
PY 99 III EDWAA-D	<u>1,290,818</u>	<u>596,358</u>	<u>0</u>	<u>596,358</u>
Total	<u>\$122,011,082</u>	<u>\$100,725,646</u>	<u>\$ 0</u>	<u>\$100,725,646</u>

2. Determine if the JTPA grants awarded to the Commonwealth were closed on a timely basis in accordance with ETA instructions.

The CWD submitted a request and received an extension of its closeout package through October 15, 2001. However, the signed copy of the closeout package was not submitted until October 18, 2001.

3. Inspect the closeout information reported to ETA, and determine if the information was reasonable based on data reported on final FSRs.

The State submitted final FSRs with the closeout package; consequently, there were no differences between the FSRs and the closeout. As an alternative procedure, we inspected the JTPA reconciliation worksheet prepared by ETA which identified the final cost entries required to be recorded in the DOL's general ledger. This worksheet showed an adjustment increasing costs by \$9.5 million, from \$91.2 million to \$100.7 million. Of the total adjustment of \$9.5 million, \$8.6 million represented costs recorded in a previous accounting system used to record JTPA financial information. When Kentucky converted to a new accounting system, these costs could not be identified by individual grant and were not reported to ETA on previous FSRs. However, prior to submitting the closeout package and final FSRs, the costs were identified and reported to the proper grant and

program. Accordingly, the amounts reported on the closeout package are considered to be reasonable based on amounts previously reported to ETA.

4. Determine if amounts reported on final cost reports or on the closeout package were supported by the Commonwealth's accounting records.

We compared the JTPA expenditures reported to the DOL on the closeout package to expenditures recorded in the CWD's accounting records, and found that the amounts reported reconciled to the CWD's official records.

5. Select a sample of six final closeout reports submitted by subrecipients to the Commonwealth, and determine if the subrecipients' final JTPA expenditures were accurately recorded in the Commonwealth's accounting records.

We obtained closeout reports submitted to CWD by six subrecipients, and compared the final expenditures reflected on the closeout reports to expenditures recorded in the Commonwealth's accounting records. The subrecipients' final JTPA expenditures were accurately recorded in the Commonwealth's accounting records.

6. Obtain the Commonwealth's single audit reports submitted for the two most recent fiscal years available, and identify the JTPA expenditures reported on the Schedule of Expenditures of Federal Awards (SEFA). Determine if these funds were tested as a major program, in accordance with single audit requirements.

We obtained the Commonwealth's single audit reports for SFY 2000 and SFY 1999, and identified the total JTPA expenditures reported on the SEFA, \$31.7 million and \$54.4 million, respectively. The JTPA program cluster was listed as a major program for both fiscal years.

7. Determine if the single audit reports identified reportable conditions, material weaknesses, report qualifications, or any other audit issues pertaining to JTPA grants that remain unresolved.

The single audit reports contained two findings that were not fully resolved, as follows:

- A. In the SFY 1999 Single Audit, finding 99-CWD-7, the auditors found that the Cabinet for Workforce Development, Department for Employment Services, inappropriately transferred JTPA expenditures among the various SubCommonwealth Grantees (SSGs). The finding noted instances in which costs of some SSGs had been charged against allotments of other SSGs, resulting in disallowed expenditures of \$613,950. The single auditors also concluded that transferring of expenditures among substate areas circumvented the 20% administrative cost limits.

The SFY 2000 Single Audit noted that CWD resolved the cost allocation portion

of this finding, but the finding was still considered unresolved as to the improper transfers and the \$613,950 of questioned costs.

- B. In the SFY 1999 and SFY 2000 Single Audits, findings 99-CWD-9 and 00-CWD-23, the auditors reported that the Cabinet for Workforce Development, Department for Training and ReEmployment, did not sufficiently track required subrecipient audits. In both years, the auditors noted several instances in which the Department did not obtain, review, reconcile, and/or resolve subrecipient audits in a timely manner.

8. Obtain the final cost reports submitted by two subrecipients and determine if the amounts reported were supported by the subrecipients' accounting records.

We visited two subrecipients, the EKCEP and BTADD. For each subrecipient, we compared the final JTPA expenditures reported to the Commonwealth to expenditures recorded in the subrecipients accounting systems, and found that the amounts reconciled with the following exceptions.

- A. On December 29, 2000, the JTPA Agreement Closeout Package, Awardee's Release was signed by BTADD indicating an expended amount of \$6,074,038. However, in summarizing BTADD's Grant Report/Invoices, the amount expended was \$6,287,210, an increase in expenditures of \$213,172.

Based on our discussion with BTADD personnel, the difference represents expenditures incurred as of June 30, 1999, but not recorded as an accrual for that period, because the invoices had not been received. The invoices were subsequently received and expensed. A corrected Awardee's Release was prepared by BTADD and signed on May 14, 2002.

- B. The total amount of the Awardee's release submitted by EKCEP for the JTPA program was \$18,711,893 and the expenditures were \$19,314,324, for a difference of \$602,431. However, the \$602,431 was reported to the Commonwealth on the June 1999 final cost report. The Commonwealth included the correct amount in the final FSRs submitted to ETA, however, a revised Awardee's release was never submitted by EKCEP.

9. Obtain the subrecipients' single audit reports and identify the JTPA expenditures reported on the Schedule of Expenditures of Federal Awards. Determine if the amounts agree or were reconciled by the single auditors to the expenditures recorded in the accounting records.

We obtained the single audit reports for both subrecipients visited and identified the JTPA expenditures reported on the SEFA. We compared the SEFA expenditures to expenditures recorded in the subrecipients accounting records, and found that the amounts reconciled.

- 10. Inspect the single audit reports submitted for the subrecipients and determine if there were reportable conditions, material weaknesses, report qualifications, or any other audit issues pertaining to JTPA grants that remain unresolved.**

We obtained the single audit reports for both subrecipients visited, and determined that the audit reports did not identify any unresolved reportable conditions, material weakness, report qualifications or other audit issues which pertained to the JTPA program.

EXHIBIT I

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

Following this title page is the complete text of Kentucky's response to our agreed-upon procedures report, issued to them on February 11, 2003.



Department for Training and ReEmployment

Cabinet for Workforce Development
209 St. Clair Street, 4th Floor
Frankfort, Kentucky 40601

Susan M. Craft
Commissioner

Allen D. Rose
Secretary

March 11, 2003

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

Dear Mr. Wallace:

In response to your letter dated February 11, 2003, the Department for Training and ReEmployment does not have any written comments to submit pertaining to the draft report on applying agreed-upon procedures. If you have any questions, please feel free to call me at 502-564-5360. Thank you.

Sincerely,

Susan M. Craft
Commissioner



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