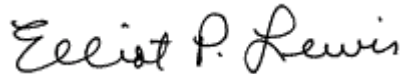


**U.S. DEPARTMENT OF LABOR
EVALUATION OF GRANT CLOSEOUT
PRACTICES APPLIED TO
JOB TRAINING PARTNERSHIP ACT GRANTS
GRANTS AWARDED TO THE COMMONWEALTH
OF PUERTO RICO
INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

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.: 04-03-020-03-340
Date Issued: May 5, 2003

R. NAVARRO & ASSOCIATES, INC.

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ACRONYMS

CPA	Certified Public Accounting
CFR	Code of Federal Regulations
CPR	Commonwealth of Puerto Rico
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
FSR	Financial Status Report
FY	Fiscal Year
JTPA	Job Training Partnership Act
OIG	Office of the Inspector General
PY	Program Year
SFY	States Fiscal 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 Puerto Rico'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 Puerto Rico 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 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.

April 11, 2002

R. Navarro & Associates, Inc.

SUMMARY OF FINDINGS

The Commonwealth of Puerto Rico (CPR) submitted its Job Training Partnership Act (JTPA) closeout package to the U.S. Department of Labor (DOL), Employment and Training Administration (ETA), on December 28, 2000. We identified the JTPA expenditures reported on the final closeout report, and found that the expenditures reported reconciled to the CPR'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 the CPR's single audits for State Fiscal Year (SFY) 1999 and SFY 2000. The SFY 2000 single audit report included two unresolved findings pertaining to the JTPA program. In the findings, the auditors indicated that the CPR did not monitor subrecipients on a periodic basis (at least once a year) and did not reconcile reported JTPA expenditures to expenditures included in the subrecipient's audited financial statements.

We visited two subrecipients, and found that final expenditures reported to the CPR's reconciled to the subrecipients' accounting records.

CPR's Response

The CPR's response to our draft report is included in its entirety as Exhibit 1 of the report. With a few exceptions, the CPR concurred with the information presented in this report.

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 Puerto Rico 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 State'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 Puerto Rico for PYs 1997, 1998 and 1999, and FYs 1997 and 1998. Procedures were applied to grant activities reported by the Commonwealth and two subrecipients, Right to Employment Administration and Southeast Consortium, on final closeout reports.

PROCEDURES AND FINDINGS

- 1. Identify the CPR’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 CPR and included in the scope of these procedures are as follows:

Year and Title	Federal Obligations Authority	Per Grantee Closeout		Net Expenditures Computed
		Total reported Expenditures	Inter-title Transfers Per FSRs	
FY 97 IIB	\$ 32,928,677	\$ 38,928,575	\$ 0	\$ 38,928,575
PY 97 II & III F	86,171,685	86,090,381	0	86,090,381
PY 97 II EDWAA	144,519	144,519	0	144,519
FY 98 IIB	40,761,613	40,747,067	0	40,747,067
PY 98 II & III-F	102,103,755	95,162,622	0	95,162,622
PY 98 III EDWAA	31,200,000	27,308,548	0	27,308,548
PY 99 IIB & IIC	54,464,419	53,145,577	1,277,547	51,868,030
PY 99 IIA & IIIF	135,461,096	62,654,660	(1,277,547)	63,932,207
PY 99 III EDWAA	<u>1,200,000</u>	<u>955,160</u>	<u>0</u>	<u>955,160</u>
Total	<u>\$490,435,764</u>	<u>\$405,137,109</u>	<u>\$ 0</u>	<u>\$405,137,109</u>

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

The CPR signed the closeout certification on December 28, 2000, which was within the time frame established by ETA.

- 3. Inspect the closeout information reported to ETA, and determine if the information was reasonable in comparison to data previously reported on final FSRs.**

The CPR 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 did not identify significant adjustments to previously recorded grant costs. 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 CPR's accounting records.

We compared the JTPA expenditures reported to the DOL on the closeout package to expenditures recorded in the CPR's accounting records, and found that the amounts reported were \$835,919 or 0.2% higher than the \$405,137,109 recorded in the general ledger.

It should be noted that the CPR passed-through the JTPA funds to 15 other organizations throughout Puerto Rico. The CPR contracted a Certified Public Accounting (CPA) firm to perform certain agreed-upon procedures to ensure that all 15 subgrantees complied with the JTPA closeout procedures. The CPR grant summary represents the total expenditures as compiled, revised or reconstructed by the CPA firm.

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

We obtained closeout reports submitted to the CPR by two subrecipients, and compared the final expenditures reflected on the closeout reports to expenditures recorded in the CPR's accounting records. In both cases, the final subrecipient expenditures were accurately recorded in the CPR's accounting records.

6. Obtain the CPR'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 CPR's single audit reports for SFY 1999 and SFY 2000, and identified the total JTPA expenditures reported on the SEFA, \$156 million and \$118 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.

In the SFY 2000 Single Audit Report, the auditors indicated that the CPR was not monitoring subrecipients on a periodic basis (at least once a year) and that the CPR did not reconcile reported JTPA expenditures to expenditures included in the audited financial statements of the subrecipient.

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 Right to Employment Administration and the Southeast Consortium. For the Right to Employment Administration, we compared the final JTPA expenditures reported to the CPR to expenditures recorded in the subrecipients' accounting systems and found that the amounts were consistent.

In the case of the Southeast Consortium, we were informed that the accounting records maintained by the subrecipient were not sufficient for purposes of preparing financial reports. An accounting firm was hired to reconstruct the costs incurred by this subrecipient in order to prepare a final accounting of total JTPA expenditures. Without the assistance and reconstruction work performed by the accounting firm, the subrecipient would not have been able to submit closeout information. Therefore, for this subrecipient we compared final JTPA expenditures reported to the CPR to expenditure summaries prepared by the independent accountants, and found that the amounts reconciled.

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 the years required and 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. In the case of the Southeast Consortium, for reasons described at procedure 8, we compared the SEFA expenditures to expenditure reports reconstructed by the independent accounting firm, and to reports submitted to the CPR and found that the amounts reconciled.

10. Inspect the single audit reports 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.

Audit reports for the Right to Employment Administration did not contain any unresolved findings pertaining to the JTPA program.

Audit reports for the Southeast Consortium had several findings. The auditors found that: trial balances were not completed; a double entry general ledger system was not maintained; actual expenditures were not compared to budget; and the accounting system did not provide timely and reliable information to permit preparation of cost reports.

**COMMONWEALTH OF PUERTO RICO'S RESPONSE AND
INDEPENDENT ACCOUNTANTS' COMMENTS**

Commonwealth of Puerto Rico's Response

The CPR provided a written response to our draft report, dated February 28, 2003, which is included in its entirety at Exhibit I. The key points provided by the CPR pertain to the single audit findings presented at procedures 7 and 10, as follows:

1. The CPR clarified that although subrecipients were not monitored by the CPR in SYF 2000, an independent accounting firm was hired to provide technical assistance and monitor each subrecipient's JTPA closeout process.
2. The CPR disputed the single auditors finding that the CPR did not reconcile reported subrecipient expenditures with JTPA expenditures included in the subrecipient's audit reports, and indicated that this finding was corrected on the SFY 2001 single audit report.
3. The CPR indicated that the single audit findings presented for the Right to Employment were not related to the JTPA program.
4. The CPR indicated that while the single audit findings presented for the Southeast Consortium were related to financial matters, corrective actions have been requested from this subrecipient in connection with the WIA program, and the JTPA expenditures were fully reconciled by a contracted accounting firm.

Independent Accountants' Comments

Our procedures were limited to presenting findings reported in the single audit reports that the single auditors consider to be unresolved. We understand that management's perspective for these findings may differ from that of the single auditors, and that progress may have been made in resolving these findings since the date of the single audit report provided for these procedures.

We concur that the single audit findings for the Right to Employment were subsequently resolved as they pertained to the JTPA program, and have deleted these findings from our final report.

EXHIBIT I

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

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



Human Resources and Occupational Development Council

Xavier González Calderón
Executive Director

February 28, 2003

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

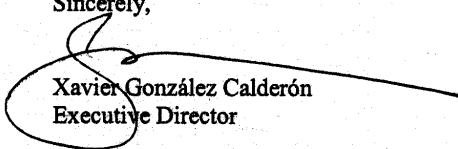
Dear Mr. Wallace:

The enclosed information contains the Human Resources and Occupational Development Council's comments to the draft report of the evaluation of Puerto Rico's JTPA closeout (reference number 04-03-020-03-340).

The JTPA Closeout was a well organized and performed process which included the participation of our staff, SDA/SSA staff and the services of the independent accounting firm contracted.

If you have any questions concerning this letter or the attached comments, please contact Joe Alvarez Nazario, Deputy Director, at (787)754-5504.

Sincerely,


Xavier González Calderón
Executive Director



Schedule of Comments

Evaluation of Grant Closeout Practices Applied to
Job Training Partnership Act Grants by the Commonwealth of Puerto Rico
(Report No. 04-03-020-03-340)

1. **Procedure 7 Finding – In the June 30, 2001 Single Audit Report, the auditors indicated that the CPR should monitor subrecipients on a periodic basis at least once a year.**

Comment: For the fiscal year 1999-2000, the CPR did not performed on-site visits to monitor the JTPA Grant. However, as noted by the accountants on their agreed-upon procedures report the CPR contracted an independent accounting firm which provided technical assistance and monitored each SDA/SSA closeout process during that fiscal year and the closeout period after the closing of the fiscal year in order to fully comply with the JTPA Financial Closeout Technical Assistance Guide.

2. **Procedure 7 Finding – In the June 30, 2001 Single Audit Report, the auditors also indicated that CPR should prepare a reconciliation worksheets between the reported expenditures and the expenditures reported in the audited financial statements of the subrecipients.**

Comment: This finding was disputed by the CPR (HRODC) management during the audit report draft process. We argued that the auditors' opinion includes a statement indicating his reliance on the information prepared by the Council's management and the contracted firm's agreed-upon procedures reports. Also, evidence was presented that as part of the CPR subrecipients Single Audit resolution process a reconciliation of the audited expenditures and the reported expenditures is performed. However, the finding was included on the final report. This condition was corrected as noted on the Summary Schedule of Prior Audit Findings and Questioned Costs included on the fiscal year 2000-01 Single Audit report.

3. **Procedure 10 Finding – Audit reports for the Right to Employment Administration contained two minor findings: that the REA did not always review forms completed by participants; and a bid was accepted after the established closing date.**

Comment: These findings were not related to the administration of the JTPA Grant. This information was included on the final determination of the audit resolution process of the 1999-2000 audit report.



4. **Procedure 10 Finding – Audit reports for the Southeast Consortium had several findings: the trial balance was not completed, actual expenditures were not compared to budget; and the accounting system did not provide timely and reliable information to permit preparation of cost reports.**

Comment: Although the audit findings included on the auditor's report related to financial matters, the closeout process performed by the Southeast Consortium included a reconciliation of all accounting records, expenditures and budget performed by a contracted accounting firm and no differences existed within the final cost reports and the accounting records. This fact was noted and included on the report submitted by R. Navarro & Associates, Inc. Under WIA, corrective actions have been requested to the Consortium so that reliable and accurate information is available on a timely basis without the need of external consultants.

