APPENDIX D

AGENCY RESPONSE TO DRAFT REPORT

Workforce Florida, inc.

Agency for Workforce Innovation

Larry T. Champion, Interim President
Workforce Florida, Inc.

Monesia T. Brown, Director
Agency for Workforce Innovation

September 27, 2007

Mr. Michael K. Yarbrough
Regional Inspector General for Audit
United States Department of Labor
Office of Inspector General
61 Forsyth Street SW
Atlanta, Georgia 30303

Re: Audit of the Job Training Partnership Act Performance Based Incentive Funds Program for the period after June 9, 1998 – Report Number 04-07-009-03-340

Dear Mr. Yarbrough:

By letter of September 10, 2007, you provided a draft report on Florida's Performance Based Incentive Funds program (Report Number 04-07-009-03-340). Please find enclosed our response for your consideration. We hope that you will find our comments to be of assistance in finalizing your report.

If you have questions or require additional information, please contact Mr. Larry T. Champion, at Workforce Florida, Inc., (850) 921-1119 or James F. Mathews, Agency for Workforce Innovation Inspector General at (850) 245-7141.

Sincerely,

Larry T. Champion
Workforce Florida, Inc.

Monesia T. Brown
Agency for Workforce Innovation

Proud Members of America's Workforce Network
The Caldwell Building •107 East Madison Street, MSC Area 100E•Tallahassee, Florida•32399-4120
Telephone (850) 245-7105•Fax (850) 921-3223•TTY/TDD 1-800-955-8771-Voice1-800-955-8770
www.myflorida.com

Response to the
Draft Audit
Performance Based Incentive Funding (PBIF) Program
For the Period after June 9, 1998

I. Background

In 1994, thirteen years ago, the Florida Legislature established the Performance Based Incentive Funding program (PBIF) which was designed to train dislocated workers and enhance employment opportunities for Florida citizens. The program was initially administered by the Jobs and Education Partnership (JEP), a subsidiary of Enterprise Florida, Inc. (EFI), through a Florida Department of Labor and Employment Security contract with the Executive Office of the Governor, Office of Tourism, Trade and Economic Development (OTTED). Four years later in 1998, the State Workforce Development Board was established and assumed the role of the JEP. In 2000, the Florida Workforce Innovation Act was passed to implement federal legislation requiring a new locally-operated, customer-focused system for workforce development in the states. This act created Workforce Florida, Inc. and the Agency for Workforce Innovation and consolidated the responsibilities of the State Workforce Development Board with new responsibilities for Work and Gain Economic Self-Sufficiency (WAGES).

Beginning operation on October 1, 2000, the Agency for Workforce Innovation (the Agency) assumed the responsibilities of the FDLES several months after the PBIF program ended on June 30, 2000. The Agency currently serves as the administrator of Florida's workforce development programs under contract with Workforce Florida, Inc. Since its inception, the Agency has been streamlining internal processes, while continuing to provide core services to customers. In response to the changing workforce environment and legislative mandates, the Agency has made substantial operational changes and productivity enhancements.

Florida state government has changed in many ways since the initiation and administration of the PBIF program. There have been two new gubernatorial administrations elected with numerous changes in state organizational structures, initiatives and oversight. The responsible organizational entities for PBIF have been long since dissolved or abolished.

In July 2006, the State of Florida paid $11.6 million to repay grant funding related to the PBIF program. Furthermore, numerous students who were PBIF participants have become employed and have used skills learned in the program to further their economic sufficiency. Lastly, lessons learned from the PBIF situation have been used to enhance administrative structures of successor workforce entities. The State of Florida is proud of the accomplishments of its current workforce system.

1

II. Comments on Audit Results:

We request that consideration be given to the following factors as a basis for waiving and not subjecting the State to payment of additional funds as a result of this follow-up audit of the PBIF program.

- There was a benefit to many dislocated workers:

Many JTPA participants did in fact receive training and assistance and were placed into targeted occupations. The PBIF program was fully supported by the Governor's Office and the Legislature through other funding sources which exceeded the amounts of JTPA funds used. Disallowing the total amount would fail to take into consideration that many dislocated workers benefited from the program.

- There was no willful disregard of federal requirements, fraud, gross negligence or failure to observe accepted standards of administration.

- The State has already paid in excess of $11 million:

The State requests that consideration be given to the fact that it has already paid $11, 579, 365.35 in non-federal funds to satisfy the disallowance resulting from the 1997 audit. This combined with the fact that many JTPA individuals received benefits should be strongly considered as a basis for resolving this audit without further required payment.

- Current State budget crisis:

Requiring additional payment at this time would create additional hardships and adversely affect the State's services to Florida citizens in need of workforce services. Based on actual revenue collections, it is anticipated that recurring general revenue for Fiscal Year 2007-08 will not be sufficient to support the levels of appropriations approved by the Florida Legislature. As a result, the State is currently facing corresponding recurring budget reductions for each State agency. Reduction options equal to 10% of the recurring general revenue appropriations have bee requested from each State agency. Thus, the available general revenue to pay additional amounts as a result of the latest PBIF audit has been reduced due to the current financial condition of the State.

- A different administrative structure currently exists that affords more administrative oversight and control; internal control reviews and monitoring; and enhances the State's current accountability for federal funds:

The Agency for Workforce Innovation has determined that monitoring, auditing and general reviews are the most effective ways to address any programmatic deficiencies and to identify corrective actions in a timely manner. The Agency quickly identifies and rigorously monitors any non-compliance with federal guidelines. The Agency currently operates all of the programs as opposed to operating a program through another agency with approval by a non-profit organization as was the case with PBIF. All of the audit findings associated with the Department of Labor and Employment Security have been successfully resolved. For the past three years, the Agency for Workforce Innovation has conducted financial and programmatic monitoring of workforce programs.

All federal grant awards are monitored by financial and programmatic staff daily to assure the allowability and proper expenditures of taxpayer funds. The Agency undergoes an annual audit conducted by the Auditor General and each sub recipient or applicable provider receives an annual A-133 audit conducted by private certified public accounting firms. These audits are reviewed by the Office of Inspector General and the Office of Financial Management for compliance with federal regulations and federal/state reporting requirements and to ensure that appropriate correction action is taken.

Beginning in fiscal year 07-08, to enhance the accountability of the programs it administers, the Agency received an appropriation of non-federal funds from the Florida Legislature. The funds will be used to conduct an expansive review of the internal controls of the Agency and selected organizations that receive agency funding (i.e. grantee organizations).

Federal regulations require the Agency to monitor the activities of grantee organizations to ensure that federal funds are accounted for properly. This review of internal controls will help ensure that this objective is met. It will also enhance Governor Crist's priorities of increasing transparency in government and ensuring ethical spending of the People's tax dollars.

This initiative will include an educational component to train staff and the governing boards of the Agency's grantee organizations. Topics will include fraud detection and fraud prevention, best practices for internal controls and the roles and duties of the governing boards. Internal control evaluations will be conducted for all regional workforce boards and any identified deficiencies will require corrective action plans.

- Length of time since PBIF program operation:

The PBIF program ceased operation in 2000. The first audit covered the period of March 1, 1995 to June 9, 1998. The period audited in the follow-up audit is June 9, 1998 through June 30, 2000. Thus, there is a seven year time period since the cessation of the program and a nine year period since the first audit.

III. <u>Position Regarding the Methodology of the Audit</u>

In the alternative, if it is decided not to waive the total disallowance of the follow up audit, we respectfully disagree with the allocation of JTPA administrative funds calculated by the auditors. During the course of the on-site audit, Board staff shared

3

specific information with the OIG auditors which clearly showed the relationship of funding for the Board to positions allocated under each fund source. This information showed staff positions transferred from Florida Department of Labor (7 JTPA funded positions), positions transferred from the Department of Commerce (8 positions, all state funded), and existing state funded positions (3 positions, state funded).

As discussed at length with the auditors, seven positions and associated funding ($490, 862 and $414,805 for fiscal year 2000 and 1999 respectively) was transferred from the Florida Department of Labor to the State Board for purposes of funding the Board and all associated programs, of which PBIF was only one. However, only one of these seven positions had anything to do with the PBIF program, and that only on a part time basis. Specific budget documents, appropriation records, organization charts, and position descriptions were given to the auditors during the last visit. Also explained to the auditors was the fact that salary costs associated with the PBIF program, including a Data Base Analyst and three Government Analyst positions, were positions transferred from the Department of Commerce, and as such, were paid from state funds, not JTPA. These state funded positions performed the pre-audits, invoicing, data consolidations, and grant monitoring functions for PBIF and other JTPA contracts.

In addition to the one PBIF position partially funded by JTPA, six positions worked specifically on the following:

- Federally required JTPA data analysis and reporting requirements,
- maintained the required HRIC Board membership composition,
- coordinated with the federal and state Departments of Labor, and subsequently the Agency for Workforce Innovation, as well as other mandatory workforce partners, in the development and distribution of federal and state policies, guidance, and memoranda,
- assisted regional workforce boards with policy clarifications, questions, and concerns, and
- Staffed the state board relative to these issues.

However, these six positions did not administer, manage, or assist with the PBIF program in any way. Consequently, in allocating the above mentioned appropriate, required, and certainly legitimate salary costs for mandatory components of the JTPA program through the proposed allocation methodology as suggested by the auditors; the auditors are now disallowing or questioning expenditures which would otherwise be allowed without question.

Consequently, the position of the State and this Board is that the auditors utilized an erroneous basis to allocate administrative costs in the initial audit which overstated the costs of administering the PBIF program, and likewise is proposing the same erroneous allocation with the same outcome for the last two years. A more appropriate and reasonable allocation would be 1/7th of the amounts received from the Department of Labor – even this allocation assumes that the one position attributed 100% of his time to PBIF, which is wrong and still overstates the allocation.

4

Because of these concerns, we would ask for reconsideration of the proposed audit adjustment which allocates an inordinate and unfair percentage of JTPA funding as questioned costs, as well as an offset of the previous adjustment for PBIF costs made in the initial audit using this unjust and erroneous allocation.