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Florida's Cash Management Practices Have Increased The Federal Government's Interest Costs

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ACRONYMS

CLMRWDB	-	Citrus, Levy, Marion Regional Workforce Development Board
CMIA	-	Cash Management Improvement Act of 1990
COPI	-	Career Options of Pinellas
DOL	-	U.S. Department of Labor
EFT	-	Electronic Funds Transfer
ETA	-	Employment and Training Administration
FBS	-	First Banking Services
FCWD	-	First Coast Workforce Development
FDIC	-	Federal Deposit Insurance Corporation
FDLES	-	Florida Department of Labor and Employment Security
FMS	-	Financial Management Service
HHS	-	U.S. Department of Health and Human Services
ITA	-	Individual Training Account
JTPA	-	Job Training Partnership Act
MY	-	Multi Year
NEFPIC	-	Northeast Florida Private Industry Council
OIG	-	Office of Inspector General
OY	-	One Year
PPIC	-	Pinellas Private Industry Council
PTEC-C	-	Pinellas Technical Education Center, Clearwater Campus
PTEC-S	-	Pinellas Technical Education Center, St. Petersburg Campus
PWDB	-	Pinellas Workforce Development Board
QPD	-	Qualified Public Depository
SDA	-	Service Delivery Area
SOFs	-	Statements of Facts
SPJC	-	St. Petersburg Junior College
WAGES	-	Work and Gain Economic Self-Sufficiency
WDBFVC	-	Workforce Development Board of Flagler and Volusia Counties
WIA	-	Workforce Investment Act
WPIC	-	Withlacoochee Private Industry Council
WWDA	-	Withlacoochee Workforce Development Authority

EXECUTIVE SUMMARY

The Office of Inspector General (OIG) has examined the cash management practices of selected Florida Service Delivery Areas (SDAs) that received Job Training Partnership Act (JTPA) grant funds from the U.S. Department of Labor (DOL). Our examination encompassed the SDAs' cash management activities, from July 1, 1995 through December 31, 1999.

The four SDAs we examined established escrow accounts with public educational institutions and commercial agents and deposited grant funds in the accounts, sufficient to pay the JTPA program participants' anticipated training costs. The funds remained in the accounts until needed to pay vendors. However, the deposits were reported as program expenditures. Cash balances in the accounts managed by the commercial escrow agents were invested.

Results of Audit

The escrow accounts violate provisions of the Cash Management Improvement Act of 1990, JTPA program regulations and the State's JTPA administrative policies, which all require cash advances to be limited to minimum amounts necessary for immediate needs. During our audit period, the monthly balances kept in the escrow accounts averaged about $2.6 million. Because the Federal Government must borrow funds and pay interest to finance programs, we estimate the cash balances kept in the escrow accounts have cost the Federal Government $540,000 of Federal interest costs.

The use of escrow accounts has continued despite long-standing concerns, raised by State program monitors and notification by the DOL's Employment and Training Administration (ETA), that use of the escrow accounts and the SDAs' associated accounting practices violated JTPA requirements.

We also had a variety of concerns with the SDAs' stewardship of the accounts. The SDAs incurred unnecessary costs in administering the escrow accounts. Also, because escrow agents offset the fees they charged for managing the accounts against interest earned on investing the balances, the SDAs' true administrative costs are masked. In addition, the SDAs have not properly accounted for monies in the escrow accounts. We found it necessary to contact various educational institutions to determine the amount of program funds that remained in the accounts, because one SDA was unable to provide the information. Finally, investments made by escrow agents are not insured and expose the funds to risks of loss.

We also found a need for better management of cash in operating accounts to ensure cash maintained in such accounts is minimized. Operating accounts, as the name implies, are cash accounts through which the SDAs' day-to-day cash transactions flow. We found some SDAs had cash balances in their

monthly operating accounts during 1999 that exceeded $1 million. Although some SDAs had invested the balances, they had not credited interest income generated from the investments to appropriate Federal programs.

Conclusion

Recent passage of the Workforce Investment Act (WIA) has created new urgency to correct the SDAs' cash management practices. WIA, DOL's successor program to JTPA, requires that most participant training is to be provided through "individual training accounts" (ITA). We noted that at least one SDA continues to use escrow accounts to pay WIA participant training costs. Unless reforms occur, unnecessary interest costs to the Federal Government will continue and may substantially increase.

Also, better cash management practices are needed to reduce cash in the SDAs' operating accounts. As with escrow accounts, concern over poor cash management practices involving the SDAs' operating accounts is a past problem that has not been corrected. Poor control of cash in Florida SDAs' operating accounts was the subject of a 1991 OIG audit report, and many of the same conditions discussed in that report were evident in this audit.

Recommendations

The Assistant Secretary for Employment and Training should require that Florida comply with cash management requirements. Specifically, SDAs should be directed to terminate existing escrow agreements and discontinue using escrow accounts to pay for participants' training. Balances in the escrow accounts should be reconciled. Both escrow balances and interest earned on operating account investments should be credited to the appropriate Federal programs. Escrow deposits have been improperly reported as expenditures. Consequently, expenditures on Federal financial reports should be reduced to reflect liquidation of the escrow accounts. Funds from escrow and operating accounts should be used for program purposes before SDAs are allowed to draw down additional Federal funds.

In addition, we recommend the State and ETA closely monitor all Florida SDAs' cash management practices to ensure cash in operating accounts is minimized and interest earnings are properly treated as program income.

FLORIDA'S RESPONSE TO THE DRAFT REPORT

Florida agreed to implement our recommendations in its response to our draft audit report. Florida indicated all SDAs will be notified that escrow accounts cannot be used to fund participants' training. The response indicates SDAs will be required to immediately cancel all escrow agreements, identify

and reconcile current balances by Federal funding source, liquidate all escrow fund investments and use the funds for current operations before drawing down additional Federal cash.

Regarding our finding that some SDAs were maintaining excess cash-on-hand in operating accounts, the State responded that all SDAs' cash management activities will be monitored not less than once annually to ensure excessive cash is not being held.

OIG'S CONCLUSION

The corrective action Florida has proposed, if implemented, will correct problems identified in this report. However, as evidenced by the large cash balances some SDAs maintained in their operating accounts, additional monitoring by ETA and the State is warranted. We recommend the Assistant Secretary for Employment and Training ensure corrective action described in Florida's response occurs.

INTRODUCTION AND CRITERIA

OIG's Involvement

Our audit was completed in response to a complaint that 4 of Florida's 24 SDAs[1] had drawn down JTPA funds in advance of needs.

Purpose of the JTPA

The JTPA Amendments of 1992 (Public Law 102-367) authorize the use of public funds for programs designed to help individuals enter the labor force. As discussed in Section 2 of the JTPA, funds are provided for:

> *. . . programs to prepare youth and adults facing serious barriers to employment for participation in the labor force by providing job training and other services that will result in increased employment and earnings, increased educational and occupational skills, and decreased welfare dependency, thereby improving the quality of the work force and enhancing the productivity and competitiveness of the Nation.*

Cash Management

JTPA regulations at 20 CFR 627.430 provide that grant payments shall be made to the Governor in accordance with the Cash Management Improvement Act of 1990 (or CMIA, codified at 31 U.S.C. 6501, et seq.), U.S. Department of Treasury regulations at 31 CFR part 205, and a written agreement between the State and the Department of Treasury.

The regulations at 20 CFR 627.430 also provide that:

> *. . . each recipient and subrecipient shall be paid in advance, provided it maintains or demonstrates the willingness and ability to maintain procedures that are in accordance with Department of Treasury regulations at 31 CFR part 205.*

[1] In the context of the JTPA, SDAs are substate administrative entities. In Florida, they are referred to as "workforce development boards." We refer to them as SDAs throughout this report.

The regulations at 20 CFR 627.430 further provide that each recipient and subrecipient shall use cash received as a result of program income, rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional cash payments.

The purpose of the CMIA was to ensure greater efficiency and equity in the exchange of funds between the Federal Government and the states. Prior to the CMIA's passage, Federal agencies had expressed concerns that states were drawing down Federal funds well in advance of the time they were needed to redeem checks. Premature drawdowns cause the Federal Government to lose interest earnings. Conversely, states had expressed concerns about having to pay Federally-financed obligations in advance of receiving reimbursement and losing interest earnings on their own funds. Congress enacted CMIA to resolve these issues. The CMIA imposed requirements for the timely transfer of funds between the Federal Government and states, and for the exchange of interest payments when transfers are not made in a timely manner.

Department of Treasury regulations at 31 CFR 205 implement the CMIA. Section 205.7 of the regulations requires that a state and Federal agency minimize the time elapsing between the transfer of funds from the United States Treasury and the payout of funds for program purposes by a state. In accordance with Section 205.9 of the regulations, a state may enter into a Treasury-state agreement with the Financial Management Service (FMS) to set forth terms and conditions for implementing the regulations. The State of Florida entered into an agreement with the Secretary of the Treasury to implement the CMIA. Federal programs covered by the agreement included the JTPA. Among the terms of the agreement is a provision that the amount of the State's request shall be sufficient to provide immediate cash needs.

Operation of the JTPA

During 1993, the Florida Department of Labor and Employment Security (FDLES) sanctioned the practice of utilizing escrow accounts to prepay JTPA participant training costs. In response to an inquiry from an SDA, FDLES stated that the use of escrow accounts was an allowable and acceptable practice under JTPA.

Beginning in 1993, Pinellas Private Industry Council (PPIC), the JTPA grant recipient for one of Florida's 24 SDAs, began establishing escrow accounts with a junior college to prepay participant training costs. Shortly after a participant's enrollment, JTPA funds in an amount sufficient to cover all costs anticipated for the duration of the participant's training were forwarded to the college, which established a training account in the participant's name.
The participant's expenses were paid and charged to the escrow account as they occurred during the course of training. In 1998, Career Options of Pinellas Inc. (COPI), the successor to PPIC, expanded the use of participant escrow accounts to include two other educational institutions.

In 1995, the Withlacoochee Workforce Development Authority, Inc. (WWDA), JTPA grant recipient for another of Florida's SDAs, began using escrow accounts and similar procedures. However, WWDA entered into an agreement with a bank to act as escrow agent, rather than establishing escrow accounts with educational institutions. Soon after a person enrolled in the program and training was agreed upon, JTPA funds were deposited into an escrow account. The deposit was sufficient to cover all long-term education and support service costs anticipated for the entire duration of the participant's training. The escrow agent, at the direction of WWDA, invested the monies until they were needed to pay the participant's expenses.

During 1996, JTPA grant recipients of two other Florida SDAs (Flagler/Volusia Workforce Development Board and Northeast Florida Private Industry Council) entered into agreements with the same bank to act as escrow agent for participant training accounts. All four JTPA administrative entities that used escrow accounts recorded the deposits as expenditures. The "expenditures" were used on Federal reports to justify drawing down Federal funds. According to the escrow agreements, income generated from investments was first used to offset banking fees and the residual deposited into the escrow accounts' general fund. The cash management practices of the four SDAs we examined are summarized in Attachments B through E of this report.

In 1998, Florida requested an opinion from ETA regarding the allowability of establishing escrow accounts to fund participants' training cost. ETA sent a letter to Florida on March 18, 1999, saying that the practice was unallowable as follows:

> *. . . this proposal is not consistent with the terms of the Job Training Partnership Act (JTPA) and the JTPA regulations as to what constitutes an expenditure and what constitutes a permissible cash advance. In addition this scholarship arrangement is not consistent with the definition of the term accrued expenditures in either the JTPA regulations or 29 CFR Part 97, which contains the uniform administrative requirements for governmental units.*
>
> * * *
>
> *A cash advance for the proposed scenario is totally inconsistent with accepted government practice. JTPA and other Federal grant programs provide funds which will be used for authorized purposes identified in the legislation. Payments into a participant's account do not constitute an allowable expenditure.*
>
> * * *
>
> *There is no indication that Congress intended that the deposit of JTPA funds into a participant's account constituted an expenditure in and of itself without any*

other indication that funds had been legally committed for program purposes. Therefore, ETA will not authorize the treatment of such deposits as expenditures either under the program regulations or under Work-Flex and other waivers of the Act and/or regulations.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

We reviewed selected Florida SDAs' cash management practices related to the use of JTPA funded escrow accounts to prepay participant training costs. Our objective was to determine if the SDAs' cash management procedures complied with applicable Federal statutes and JTPA program regulations.

Scope

We examined the cash management practices of four SDAs that used escrow accounts to pay participant training costs. (See Attachments B through E for a discussion of each SDA.) Our audit period was July 1, 1995 through December 31, 1999.

Methodology

We analyzed financial and cash management data and SDA monitoring reports at the Florida Department of Labor and Employment Security (FDLES) to identify indicators of SDAs drawing down JTPA funds in advance of actual needs to cover expenditures.

For those SDAs that used escrow accounts to fund participant training services, we analyzed data to determine when the accounts were first established, how the accounts were managed, the number of participant accounts, and the amount of Federal dollars used to fund the accounts. We also analyzed SDA financial records to determine whether escrow funds were being properly accounted for and reported in accordance with Federal regulations.

We evaluated the State of Florida's and the SDAs' internal control procedures over JTPA cash transfers. We compiled and reviewed data regarding operation of the escrow accounts and SDAs' operating bank accounts. Our examination was made for the purpose of determining if JTPA funds were being drawn down and reported as expenditures in accordance with Federal program and cash management laws and regulations. We did not audit expenditures charged against the escrow or operating bank accounts.

Statements of Facts (SOFs) containing data collected during our review were issued to each of the four SDAs and FDLES. Their responses to the SOFs were considered in preparing this report.

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such tests as we considered necessary to satisfy the objective of our audit. Our fieldwork began in November 1999 and continued intermittently through August 2000.

RESULTS OF AUDIT

IMPROVED CASH MANAGEMENT PRACTICES WOULD REDUCE PROGRAM COSTS

Poor cash management practices involving four Florida SDAs resulted in unnecessary interest costs to the Federal Government. We found the SDAs had:

(1) Established **escrow accounts** with public educational institutions and commercial agents, and deposited sufficient Federal grant funds[2] in the accounts, in advance of needs, to pay the anticipated costs of training program participants. The cash balances placed with commercial agents were invested.

(2) Maintained **operating accounts** with large cash balances. Some SDAs have invested the balances but have not distributed interest income received from the investments to the appropriate Federal programs.

We also have a variety of concerns regarding management of the accounts. Action has not been taken to correct long-standing cash management issues identified by FDLES program monitors. Also, some SDAs incurred unnecessary costs in administering the escrow accounts. Finally, the monies in the escrow accounts have not been properly accounted for and may be at risk of loss.

Escrow Accounts Unnecessarily Increase the Need for Federal

Four Florida SDAs use escrow accounts to prepay JTPA participants' training costs. Since the escrow accounts were established in 1993, the SDAs have deposited about $13.9 million in them. From their inception through December 31, 1999, the monthly account balances have averaged about $2.6 million.[3]

[2] In addition to JTPA funds, two of the four subrecipients also received Federal grant funds provided by the U.S. Department of Health and Human Services, as indicated in Attachment A.

[3] Our scope included activities involving the SDAs' escrow accounts from the date they were established until December 31, 1999, with the exception of the Pinellas Workforce Development Board (PWDB). PWDB's escrow accounts were created in 1993, but records are incomplete before July 1, 1995.

From inception of the accounts until December 31, 1999, the SDAs earned net interest income of about $320,000 through investment of the account balances. However, the Federal Government borrows money to fund appropriations and must pay interest on the public debt. Funds drawn down by grantees that are in excess of their needs cost the Federal Government interest which could have been avoided through better cash management. Consequently, we estimate the SDAs in earning themselves $320,000 in interest income have cost the Federal Government $540,000 in interest expense. If the practice continues, the Federal Government could incur additional annual costs of about $185,000.[4] A summary of account activities, from inception, through December 31, 1999, is included as Attachment A to this report.

Despite Long-Standing Concerns and ETA's Prohibitions,

As discussed in the "Introduction and Criteria" section of this report, escrow accounts were first established in 1993. As early as 1995, FDLES program monitors took exception to the manner in which SDAs accounted for deposits to escrow accounts. In subsequent years, FDLES monitoring reports questioned the SDAs' cash management practices related to the accounts. Further, ETA issued an opinion to Florida on March 19, 1999, indicating the escrow accounts violated the JTPA's requirements. However, when we began our audit fieldwork at the SDAs in January 2000, the accounts were still in use.

In 1993, FDLES' response to an SDA's inquiry sanctioned the practice of using escrow accounts to prepay participants' training costs. According to FDLES, the use of "scholarships" to prepay JTPA participants' training costs was an allowable and acceptable practice under JTPA. Shortly thereafter, the SDA established escrow accounts with various educational institutions and three additional SDAs also began using escrow accounts. However, rather than establishing the accounts with educational institutions, these entities entered into agreements with a commercial financial institution to act as escrow agent.

In a 1995 letter, FDLES responded to a similar inquiry from another SDA. In that letter, FDLES indicated that funds used to prepay participant training costs should not be considered accrued expenditures. The response further stated that guidance, consistent with that provided in the letter,

[4] The computation of past costs is based upon average yearly escrow balances and U.S. Treasury Bill interest rates the Federal Government must pay on funds it borrows. Future costs have been estimated using December 1999 Treasury Bill rates and escrow fund balances.

would be issued to all SDA directors and other JTPA subrecipients. However, we did not find evidence further guidance was distributed.

FDLES's Division of Jobs and Benefits, Office of Compliance, was the State organization responsible for monitoring operations of the SDAs for compliance with various program laws and regulations. The Office of Compliance completed monitoring reviews at each of the four administrative entities included in this review, during the period December 1997 through October 1998. The resulting monitoring reports questioned whether the SDAs' use of escrow accounts violated FDLES, Division of Jobs and Benefits' cash management policy. The policy (FMA-94-03R, dated December 15, 1995) provides:

> *It is the responsibility of JTPA subrecipients to minimize the time elapsing between the advance of funds and disbursement of those funds. Each subrecipient shall be paid in advance, provided it maintains or demonstrates the willingness and ability to adhere to the procedures outlined in this policy. CASH ADVANCES shall be limited to the minimum amounts needed and shall be timed to be in accordance with only the actual, immediate cash requirements for carrying out a JTPA program or project.*

On January 22, 1998, the FDLES, Office of Compliance, provided the Director, Division of Jobs and Benefits with a briefing paper which summarized the potential financial issues related to participant scholarships. This briefing document contained many of the same issues contained in this report. However, actions to correct the conditions were not taken. Instead, FDLES decided to hold this concern in abeyance pending further review by FDLES' Division of Job Benefits.

On July 24, 1998, FDLES sent a letter to ETA requesting an opinion regarding Florida's use of JTPA escrow accounts. As discussed in the "Introduction and Criteria" section of this report, ETA's March 18, 1999 letter advised FDLES that the use of escrow accounts violated JTPA requirements for permissible cash advances. The requirements, contained in 20 CFR Part 627.430(b), are nearly identical to the Division's policy:

> *. . . each recipient and subrecipient shall be paid in advance, provided it demonstrates the willingness and ability to limit advanced funds to the actual immediate disbursement needs in carrying out the JTPA program.*

ETA also advised FDLES that payments to participants' accounts did not constitute accrued expenditures as defined at 20 CFR 626.5.[5] Therefore, they should not have been used to justify drawing down additional JTPA funds.

On April 20, 1999, FDLES provided all administrative entities with a copy of ETA's response and requested each entity ensure its existing scholarship accounts were managed in accordance with the guidance provided by the Federal Government. A May 1999 meeting was attended by representatives of the four SDAs who used the accounts. At the meeting, FDLES issued guidance that beginning June 10, 1999, JTPA advances used to fund escrow accounts would be limited to one year's anticipated needs.

While this action may have reduced escrow account balances somewhat, it is contrary to JTPA requirements limiting advances to immediate needs. As of January 2000 (the date of our analysis), the four SDAs continued to use escrow accounts to prepay participants' training expenses. Also, the SDAs continued to report cash deposits to escrow accounts as accrued expenditures, contrary to ETA's direction.

Unnecessary Costs Were Incurred on

We found that some administrative functions for which escrow agents received fees duplicated activities performed by the SDAs.

Three of the administrative entities were using the same financial institution (Salem Trust) as their escrow agent. The agent received deposits of Federal funds and, at the direction of the administrative entities, invested the monies in Treasury Money Market Funds. Interest income from investing escrow funds was used to pay fees associated with operating the escrow accounts. According to the SDAs' records, escrow fees totaled $120,595 as of December 31, 1999. The escrow agreements provide for monthly administration, record keeping, and transaction fees (for all monthly transactions in excess of 100). These fees applied to each account being maintained by the agent. An SDA was maintaining three separate escrow agreements with Salem (see Attachment B), which tripled the agent's monthly administration fee.

Each of the three SDAs that use commercial escrow accounts maintain records for each participant whose training expenses were funded through the escrow accounts. The SDAs' records include deposits and expenditures that have been made to the escrow accounts. First Banking Services (FBS),

[5] The Division's policy defines "accrued expenditures" in language identical to that in the JTPA regulations. The policy further defines "cost" as "accrued expenditures."

a contractor of Salem, maintains similar participant account data and receives a monthly record keeping fee for each escrow account. The only additional services provided by Salem was investing escrow funds and writing checks to vendors for training-related items participants received. One SDA discontinued using Salem's bookkeeping services, in September 1997, due to problems in reconciling the escrow agent's and the SDA's records. (See Attachment D.) Since that time, the escrow agent's role has been limited to receiving and investing funds, at the direction of the administrative entity. The agent receives monthly fees of $525 for this service.

The issue of duplicated functions aside, costs of administering the program are masked by the use of escrow accounts. The SDAs report deposits to the escrow accounts as participant training expenditures. Because escrow agents offset their fees against investment earnings, the true costs of administering the JTPA programs is not captured and Federal reports may be distorted.

Stewardship of Grant Funds Kept in Escrow Accounts Was

Funds kept in escrow accounts have not been properly accounted for. Consequently, the funds are at risk of misuse or loss.

One SDA had no records of escrow accounts that were established in 1993 with educational institutions. We contacted the educational institutions and found the earliest records available were for the 1995-1996 school year. Analysis of the schools' records indicated the escrow accounts had unspent balances, at December 31, 1999, that totaled $265,265. However, $67,961 of this amount was for participants who were no longer enrolled in school.

Although required by memoranda of agreement, the SDA had not requested refunds of unused balances remaining in the participants' accounts. Also, the school agreed to periodically report to the SDA charges they made to the accounts. The school did not report charges made to the accounts, and the SDA neither approved the charges nor requested reports of the school.

As previously mentioned, another SDA was unable to reconcile participant account balances maintained by the escrow agent with participant records it maintained. The SDA paid an outside auditor to reconcile the records and the SDA quit using the bookkeeping services of the escrow agent and began issuing payments for participant services directly to the various vendors. We also noted that funds maintained in the escrow accounts were not identified as assets in the single audit reports issued by two independent auditors.

Funds in Escrow Accounts are Exposed to Potential Risks

The SDAs deposited funds with the escrow agents and, at the direction of SDAs, the escrow agents invested the monies in Treasury Money Market Funds. The monthly balances of invested funds have averaged more than $2.6 million. However, according to the Funds' prospectuses, the investments are not guaranteed or endorsed by the bank, the Federal Deposit Insurance Corporation (FDIC) or other governmental agencies. The prospectuses further advise that investments of the Funds involve risks, including the possible loss of principal.

Investments in Treasury Funds involve a minimum of risk. However, a degree of risk is inherent in any commercial investment arrangement and may result from improper activities of the escrow agents, as well as loss of the principal. Further, the interest costs to the Federal Government have exceeded the return realized by the SDAs, as we have previously discussed. Consequently, the Federal Government is exposed to both the costs and the risks of the SDAs' investment activities.

Better Management of SDAs' Operational Account Balances is Needed

Federal and State cash management regulations require grant administrative entities to maintain minimal cash balances.
However, during 1999, three of the four administrative entities reviewed had monthly operating account bank balances in excess of $1 million. Further, some had invested the funds and not returned the interest income to the appropriate Federal programs.

Operating accounts are the cash accounts through which the day-to-day transactions of an SDA flow. As with the escrow accounts, cash drawn down in excess of needs, as evidenced by large operating account balances, costs the Federal Government unnecessary interest expense.

Some SDAs invested the cash balances in their operating accounts. We identified instances where administrative entities were not crediting interest income to the appropriate Federal programs, whose funds constituted the cash balances that were invested. For example, one administrative entity invested cash in operational accounts that averaged $1,134,000 during 1999. During one 19-day period (September 23 through October 11, 1999), the average daily balance invested was $1.5 million. These investments generated $55,614 in interest income that was not prorated among the applicable

Federal programs which provided the funds. Rather, all interest income was included in the entity's "unrestricted fund" balance. (See Attachment D.)

In another instance, an administrative entity earned interest income of $10,724, during the last 6 months of 1999, from investing cash balances that averaged $384,000 per month. However, all of the interest income was credited to one Federal program rather than being prorated among all Federal programs whose funds comprised the balances. (See Attachment C.)

We also found two instances where large cash balances were maintained in low interest or non-interest bearing accounts. One administrative entity maintained average monthly cash bank balances of $1,189,000 in a low-interest bearing account (0.752 percent). In 1999, the account earned interest income totaling about $9,000 (see Attachment E). Another administrative entity maintained large cash balances in a non-interest bearing account. During the last 6 months of 1999, the monthly cash bank balance averaged $1,226,000. (See Attachment B.)

The large balances violate the Division's policy and requirements for JTPA cash advances. They are also inconsistent with the Treasury Department's regulations implementing the CMIA (31 CFR 205.20(a)) which provide:

> *Cash advances to a state shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the state in carrying out a program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the state for direct program costs.*

The large cash balances also violate FDLES' policy (FMA-94-03R) that requires SDAs limit cash advances to minimum amounts needed for their immediate program needs.

Further, JTPA regulations at 20 CFR 627.430(h)(2) require SDAs to account for income earned on funds as program income. In order to avoid returning the earnings to the DOL, SDAs must add the funds to those committed to the particular JTPA grant from which they were earned. Use of the funds must also comply with requirements applicable to the JTPA grant funds, including cost limitations.

As with escrow accounts, problems concerning excessive cash are old issues that have not been corrected. A 1991 OIG audit report[6] identified problems with excess cash balances in the SDAs' operating accounts and their failure to use income earned from JTPA grants for program purposes.

CONCLUSIONS

The Federal Government would avoid significant costs if escrow accounts were eliminated. Passage of the Workforce Investment Act (WIA) on August 7, 1998, has added urgency to the need for corrective action. WIA reforms job training programs and supersedes the JTPA, effective July 1, 2000. On April 15, 1999, the Department of Labor issued an Interim Final Rule implementing WIA's provisions. These regulations provided that, with few exceptions, participant training services must be paid through Individual Training Accounts (ITA). Since all states will be using ITAs, it is extremely important to ensure good cash management practices are in place. Although not within the scope of our audit, we noted that at least one SDA we reviewed was using escrow accounts to pay WIA participants' training costs. If existing cash management practices are not corrected, they may increase Treasury borrowing and related interest costs by millions of dollars.

The need for efforts to improve management of the SDAs' operating accounts was also evident during our audit. Large cash balances and undistributed interest earnings indicate poor compliance with cash management requirements.

RECOMMENDATIONS

Federal cash management regulations provide that a state shall be liable for interest on Federal funds advanced prior to immediate need. The State's practice of allowing SDAs to draw down funds in advance for escrow accounts does not meet the criteria of immediate need and, therefore, we believe the State may be liable for paying interest on those funds. However, we have not recommended recovery of interest or return of excess funds to the Federal Government. Rather, we seek corrective action. We recommend that the Assistant Secretary for Employment and Training direct Florida to:

- notify all SDAs that escrow accounts should not be used to fund participants' training and obtain assurance they will not be used in the WIA program;

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[6] OIG audit report number 04-91-032-03-340, "Review of Federal Cash Management Within Florida's Job Training Partnership Program," dated July 26, 1991.

- require SDAs to immediately cancel all escrow agreements, identify and reconcile current escrow balances by Federal funding source, liquidate all escrow fund investments, and use the funds for current operations before drawing down additional Federal cash;

- reduce expenditures on appropriate Federal reports by the amount of current escrow balances to correct distortions caused by the SDAs improperly recording deposits as expenditures;

- review the SDAs' cash management practices, determine that cash-on-hand in operating accounts is not in excess of immediate cash needs, and conduct periodic monitoring of the SDAs' cash management activities to ensure excessive cash is not being maintained; and

- require SDAs to distribute program income received from investments of operating account balances and ensure the funds are used for program purposes before the SDAs are allowed to draw down additional Federal cash.

FLORIDA'S RESPONSE TO THE DRAFT REPORT

Florida's response, included in its entirety as Exhibit 1 of this report, stated that all SDAs would be notified that escrow accounts cannot be used to fund participants' training. The State will request the SDAs to provide assurance that escrow accounts will not be used in the WIA program. Also, SDAs will be required to immediately cancel all escrow agreements, identify and reconcile current balances by Federal funding source, liquidate all escrow fund investments, and use the funds for current operations before drawing down additional Federal cash.

In addition, SDAs will be required to adjust appropriate financial reports by the amount of current escrow balances to correct distortions caused by improperly recording deposits as expenditures. The State indicated it will make appropriate adjustments to the Federal reports.

The response further stated that SDAs will be required to distribute program income received from investments of operating account balances and use the funds for program purposes before additional Federal cash is drawn down. Regarding our finding that some SDAs were maintaining excess cash-on-hand in operating accounts, the State responded that all SDAs' cash management activities are monitored not less than once annually to ensure excessive cash is not being maintained.

ANALYSIS OF FLORIDA'S COMMENTS TO THE DRAFT REPORT

If properly implemented, the corrective action Florida has proposed will resolve problems identified in this report. However, the large cash balances that some SDAs maintain in their operating accounts indicate that additional monitoring of the SDAs' cash management practices, by ETA and the State, is warranted. As previously discussed, cash management issues in Florida are long-standing concerns. Consequently, we recommend the Assistant Secretary monitor resolution activities to ensure corrective action described in Florida's response is taken.

SELECTED FLORIDA SDAS' ESCROW ACCOUNT ACTIVITIES
JULY 1, 1995 THROUGH DECEMBER 31, 1999

Regional Workforce Development Board	Escrow Agent	Date Established	Funding Source	Deposits	Federal Expenditures	Escrow Acct. Balances	Investment Income Gross	Investment Income Escrow Fees	Investment Income Net
Pinellas	SPJC	1993 (a)	DOL	$502,806	$254,990	$247,816	$0	$0	$0
	PTEC - S	1998	DOL	73,159	70,289 (b)	2,870	0	0	0
	PTEC - C	1998	DOL	40,858	26,279	14,579	0	0	0
First Coast	Salem	1996	DOL	7,158,856	5,154,839	2,004,017	242,561	41,312	201,249 (c)
Flagler & Volusia	Salem	1996	DOL/HHS	3,045,905	2,376,378	669,527	95,551	27,722	67,829 (d)
Citrus, Levy, Marion	Salem	1995	DOL/HHS	3,071,987	2,572,718	499,269	102,904	51,561	51,343 (c)
Totals				$13,893,571	$10,455,493	$3,438,078	$441,016	$120,595	$320,421

Notes:

(a) Earliest records available for our review were for the 1995-1996 school year.
(b) Includes $15,042 refunded to Career Options of Pinellas, Inc. (COPI).
(c) Investment Income retained in escrow account
(d) Investment Income transferred to the grantee's operation account and prorated to applicable federal programs.

Acronyms:

SPJC Saint Petersburg Junior College
PTEC - S Pinellas Technical Education Center - St Petersburg campus
PTEC - C Pinellas Technical Education Center - Clearwater campus
DOL Department of Labor - JTPA program
HHS Health & Human Services - WAGES program

ATTACHMENT B

SYNOPSIS OF CASH MANAGEMENT PRACTICES FIRST COAST WORKFORCE DEVELOPMENT, INC. (JEP #8)

ESCROW ACCOUNTS

On February 9, 1995, the Executive Director of the Northeast Florida Private Industry Council, Inc. (NEFPIC) wrote to the Chief of Bureau of Job Training, FDLES and expressed the PIC's intention of using "scholarship" programs to prepay participant training costs (tuition, fees, books, and supplies) necessary for participants' entire training period. FDLES' April 24, 1995 response stated that a prepaid expense is not considered an accrued expenditure until the services are actually received, therefore, the funds used to prepay training expenses should have been considered assets until needed to pay training costs.

On May 24, 1996, NEFPIC entered into an agreement with Barnett Bank and Trust Company (escrow agent) for the operation of an escrow account. The escrow agent received deposits of JTPA funds, and at the direction of NEFPIC, invested the monies in Emerald Treasury Money Market Funds. Interest income from the investment of escrow funds was first used to pay fees associated with escrow account operations. Interest earned in excess of the monthly fees was deposited into the escrow general fund, as directed by NEFPIC. The escrow agent, at the direction of NEFPIC, made payments from the escrow account.

On June 30, 1998, First Coast Workforce Development, Inc. (FCWD), successor organization to NEFPIC, entered into an escrow agreement with Salem Trust Company (escrow agent) for the operation of an escrow account to fund participant training for multiple years (MY). FCWD, continued the practice of drawing down JTPA funds, in an amount sufficient to cover all anticipated long-term education and supportive service costs, for the entire duration of a participant's training. The funds were deposited in the escrow account shortly after participants enrolled in a program. FCWD recorded the deposits as expenditures on Federal reports and used these expenditures to justify drawing down Federal funds.

Barnett Bank was sold to NationsBank, and NationsBank subsequently sold the trust operations it acquired from Barnett Bank to Salem Trust. The escrow agent receives deposits and, at the direction of FCWD, invests the funds in Nations Treasury Fund. Interest income from investment of escrow

funds is used to pay fees of Salem Trust Company. The escrow fee agreement provides for a $395 monthly administration, a $395 monthly base record keeping fee and a $.75 per check transaction fee, for all monthly transactions in excess of 100. Interest earned in excess of the monthly fees is deposited into the escrow general fund, as directed by FCWD.

In July 1999, FCWD established another escrow account with Salem Trust Company (escrow agent), which was subject to the same terms and fees as outlined in the June 30, 1998 agreement with Salem Trust Company. This escrow account is used to fund JTPA participant accounts for one fiscal year (OY) in advance.

In February 2000, FCWD established a third escrow account with Salem Trust Company (escrow agent) which was subject to the same terms and escrow fees as outlined in the June 30, 1998 agreement with Salem Trust Company. This escrow account is used to fund WIA participant accounts.

JTPA funds deposited into participant escrow accounts were included in FCWD's financial accounting records (balance sheet accounts). However, these funds were not included in either the September 30, 1998 or June 30, 1999, balance sheets used by independent auditors to express an opinion on the FCWD financial statements.

Analysis of escrow accounts for the period May 1996 through December 1999 showed:

- A total of $7,158,856 of JTPA funds were deposited into the escrow accounts.

- Gross investment income (interest) was earned on deposits totaling $242,561, from which agent's fees of $41,312 were offset, resulting in net investment income of $201,249, that was retained in the accounts.

- The MY escrow account maintained an average monthly balance of $1,246,994. and the OY escrow account maintained an average monthly balance of $405,656.

- The December 31, 1999 MY and OY escrow account balances were $1,688,965 and $315,052, respectively.

Although outside the scope of our audit, we also noted that the WIA account balance at February 29, 2000, was $101,864.07.

Lockheed, Inc., FCWD's service provider, maintains detailed computerized accounting records for each participant whose JTPA services are paid through the escrow accounts. All escrow deposits and

expenditures are accounted for, by participant and title of the JTPA. In addition, First Banking Services (FBS), a contractor of Salem Trust Company, maintains the same types of detail account data. FBS receives a $395 per month record keeping fee and a transaction fee of $.75 per check, for all monthly transactions in excess of 100 transactions. For the period October 1998 through December 1999, FBS charged record keeping fees of $11,446. These fees were offset against investment income earned on the escrow accounts.

Salem Trust Company received escrow account deposits and, at the direction of FCWD, invested them in Treasury funds. In addition, Salem issued checks to pay participants' expenses. For the period July 1998 through December 1999, Salem was paid escrow account fees of $19,077, which included $11,446 in record keeping fees paid to FBS. These fees were also offset against the investment income earned from investing the escrow account balances.

OTHER CASH MANAGEMENT ISSUES

First Coast Workforce Development Inc. (FCWD) maintains a non-interest-bearing checking account with First Union National Bank. Job Training Partnership Act (JTPA) funds are drawn down and deposited into this account, which is also used as the depository for all other of FCWD's operating funds, including the Work and Gain Economic Self-Sufficiency (WAGES) program. OIG analysis of this account, for the period July 1999 through December 1999, indicated that the average monthly bank balance was $1,226,689, and the average monthly book balance was $257,007.

ATTACHMENT C

SYNOPSIS OF CASH MANAGEMENT PRACTICES CITRUS, LEVY, MARION REGIONAL WORKFORCE DEVELOPMENT BOARD (JEP #10)

ESCROW ACCOUNTS

Withlacoochee Workforce Development Authority, Inc. (WWDA), predecessor to the Citrus Levy Marion Regional Workforce Development Board, Inc. (CLMRWDB), began using an escrow account in June 1995. Shortly after a participant enrolls in the program, JTPA funds sufficient to cover all training costs anticipated for the duration of the participant's training, are deposited into the escrow account. All deposits made into the escrow account are recorded as expenditures on the Federal reports, and these expenditures are used to justify drawing down Federal funds.

On May 22, 1995, WWDA entered into an escrow agreement with Barnett Bank and Trust Company (escrow agent) to operate the escrow account. The escrow agent received deposits from WWDA and, at the direction of WWDA, invested the funds in the Emerald Treasury Money Market Fund. Interest income from the investment of escrow funds was first used to pay fees associated with the escrow account's operations and remaining funds were retained in the escrow account.

WWDA maintained detailed computerized accounting records for each participant whose services were funded through the escrow account. These records account for all escrow deposits and expenditures by participant and by JTPA program Title. First Banking Services (FBS), a contractor of Barnett Bank, maintained similar participant financial data. FBS was paid a monthly record keeping fee of $395 from the $920 monthly escrow agent's administrative fee paid to Barnett. This monthly fee was for processing of participant transactions. An additional $.75 was charged for each transaction in excess of the first 100. FBS continued the same escrow record keeping services for Salem Trust through a servicing agreement that was effective September 25, 1998. These fees were offset against investment income earned from the escrow account.

Barnett Bank received escrow account deposits and, at the direction of WWDA, invested the funds in Emerald Treasury Fund. Barnett issued checks, at the direction of WWDA, for the payment of participant expenses. An addendum to the original escrow agreement, dated

May 11, 1998, authorized investment of the escrow account funds in Nations Treasury Fund.

Barnett Bank was sold to NationsBank, and NationsBank subsequently sold the trust operations it acquired from Barnett Bank to Salem Trust Company. A first amendment to the escrow agreement, effective on January 1, 2000, altered the original escrow agreement dated May 22, 1995, between WWDA and Salem Trust Company. The amendment changed all references made on behalf of WWDA to CLMRWDB.

Both JTPA grant funds provided by the DOL and WAGES grant funds provided by HHS were used as sources of funds for the escrow account.

Analysis of the escrow account statements for the period May 1995 through December 1999 showed the following:

- A total of $3,071,987 of JTPA/WAGES funds were deposited into the escrow account.
- Gross interest income totaled $102,904, from which agent's fees of $51,561 were deducted, resulting in net interest income of $51,343, which was maintained in the escrow account.
- The escrow account maintained an average monthly balance of $453,164.
- The December 31, 1999 escrow account balance was $499,269.

OTHER CASH MANAGEMENT ISSUES

CLMRWDB maintains an interest bearing operational checking account with NationsBank. JTPA funds are drawn down and deposited into this account which is also the depository account for all other local and federal funds. This account was not interest bearing until July 1999. Analysis of the account from July 1999 to December 1999 indicated an average monthly balance of $384,691, that earned interest totaled $10,724. All interest income was credited to the WAGES program, rather than being prorated to all appropriate programs, which should have included JTPA.

ATTACHMENT D

SYNOPSIS OF CASH MANAGEMENT PRACTICES WORKFORCE DEVELOPMENT BOARD OF FLAGLER AND VOLUSIA COUNTIES, INC. (JEP #11)

ESCROW ACCOUNTS

The Workforce Development Board of Flagler and Volusia Counties, Inc. (WDBFVC), the administrative entity for the JTPA program, began using an escrow account in June 1996. JTPA funds are deposited into the operations account and transferred to the escrow account shortly after participants are enrolled into a program. The amount deposited was sufficient to cover all estimated long-term education and supportive services costs anticipated for the entire duration of training. However, beginning in July 1999, participants' supportive services cost were no longer paid through the escrow account.

The Barnett Bank and Trust Company (escrow agent) received deposits and invested them in the Emerald Treasury Fund, as provided by their agreement with WDBFVC. This agreement could not be located by WDBFVC. We obtained a copy of the agreement from the agent. According to the agreement, income from investments of escrow funds was first used to pay fees associated with escrow operations. The agent basic monthly fee was $920, which included First Banking Services' (FBS) charges for accounting services. The remaining interest income was retained in the escrow account as directed by WDBFVC. The agent made payments from the escrow account at the direction of WDBFVC.

On July 1, 1998, WDBFVC entered into an escrow agreement with Salem Trust Company (escrow agent) for the operation of an escrow account. Barnett Bank was sold to NationsBank, and NationsBank subsequently sold the trust operations it acquired from Barnett Bank to Salem Trust. The agent receives the deposits and invest the deposits into Nations Treasury Reserves, as directed by their agreement with WDBFVC. This agreement could not be located by WDBFVC. We obtained a copy of the agreement from the agent. According to the agreement, interest income from investment of escrow funds was used first to pay agent's fees. Salem Trust Company's basic service fee was $525 per month. Interest that was earned in excess of monthly fees was deposited into the escrow account and used at WDBFVC's discretion.

In September 1999, WDBFVC directed the transfer of all accrued net interest income to date ($55,380) from the escrow account to WDBFVC's operating account. After September of 1999, net interest income generated from escrow account operations was transferred monthly to WDBFVC's operating account. The interest income was prorated to applicable programs.

WDBFVC maintains detailed computerized accounting records for each participant whose services are paid for through the escrow account. These records account for all escrow deposits and expenditures by participant and title of the JTPA program. In addition, First Banking Services (FBS), a contractor of Salem Trust Company, maintains similar account data. FBS received a base fee of $395 per month and a $.75 per check transaction fee, for all monthly transactions in excess of 100. From June 1996 through August 1997, FBS received fees totaling $6,067.

Salem Trust Company receives escrow account deposits and, at the direction of WDBFVC, invests the deposits in Treasury funds. In addition, Salem issued checks in payment of participant expenses. From June 1996 through December 1999, escrow account fees totaled $27,721, which included $6,067 in record keeping fees paid to FBS. These fees were offset against investment income earned from operation of the escrow account.

The accounts maintained by FBS could not be reconciled to WDBFVC's records. Therefore, in September 1997, WDBFVC ceased utilizing the services of FBS and began issuing checks for participant services. WDBFVC hired an outside auditor to reconcile the FBS participant escrow accounts. WDBFVC records deposits into the escrow account as expenditures on Federal reports and uses these expenditures to justify drawing down Federal funds. Since September 1997, the only role of Salem Trust Company, as escrow agent, has been to receive and invest funds at the direction of WDBFVC. Salem receives monthly fees of $525 which are offset from the investment income earned from operation of the escrow account.

JTPA funds deposited into the escrow account were not included on the June 30, 1997, 1998, and 1999 balance sheets used by independent auditors to express an opinion on the WDBFVC financial statements.

Analysis of escrow account statements for the period June 1996 through December 1999, showed the following:

- A total of $3,045,905 in Federal funds had been deposited into the escrow account, as of December 31, 1999.

- Gross investment income earned on deposits was $95,551, from which agent's fees of $27,722 were offset, resulting in net income of $67,829. Net investment income of $5,573 was transferred to the escrow principal and the balance of $62,256 was transferred to WDBFVC's operations account.

- The escrow account contained an average monthly balance of $554,763.

- The December 31, 1999 escrow account balance was $669,527.

OTHER CASH MANAGEMENT ISSUES

WDBFVC maintains an interest-bearing checking account for its operations, with NationsBank. JTPA funds are drawn down and deposited into this account which is used for all WDBFVC operating funds. WDBFVC's June 30, 1999 financial statements reported that 99 percent of funds were provided by Federal programs. Interest earned from overnight investment of operating account balances was not prorated among the Federal programs; rather, this interest was reported as "unrestricted" income. Therefore, JTPA and WAGES programs, did not benefit from the interest income. Analysis of the monthly account statements, for the period January 1999 through December 1999, showed that the average overnight investment balance was $1,134,099. During one 19-day period (September 23 through October 11, 1999) the average daily balance invested was $1.5 million. Interest earned for 1999 was $55,614, on overnight investments of account balances.

ATTACHMENT E

SYNOPSIS OF CASH MANAGEMENT PRACTICES PINELLAS WORKFORCE DEVELOPMENT BOARD (JEP #14)

ESCROW ACCOUNTS

On September 23, 1993, the President of the Pinellas Private Industry Council (PPIC), wrote to FDLES' Chief of the Bureau of Job Training, requesting approval for the use of scholarships to prepay training costs, at the beginning of a participant's training period. FDLES' response of November 3, 1993, stated that the use of scholarships was an allowable and acceptable practice under JTPA.

During 1993, PPIC, the grant recipient and administrative entity for JTPA grants, began using prepaid scholarships with St. Petersburg Junior College (SPJC), to provide JTPA-funded training. In 1998, Pinellas Technical Educational Center's (PTEC), Clearwater Campus and St. Petersburg Campus, also entered into agreements with Career Options of Pinellas, Inc. (COPI), the successor to PPIC, to establish scholarship accounts for JTPA participants. Shortly after a participant's enrollment, JTPA funds in an amount sufficient to cover all costs anticipated for the duration of the participant's training, were forwarded to the schools and a training account was established in the participant's name. Expenses were paid and charged against the training accounts as they occurred.

On July 1, 1999, the Pinellas Workforce Development Board (PWDB) became the administrative entity for JTPA programs. COPI remained PWDB's service provider for JTPA programs. PWDB continued to use JTPA funds and prepaid scholarships in order to use JTPA funds that FDLES had made available to the PWDB late in the program year. The funds had to be spent prior to the end of the funding cycle to avoid being lost.

Neither PWDB nor COPI were able to account for scholarship funds provided to the school systems. Therefore, we contacted the schools, reviewed their records, and compiled the schools' data on JTPA scholarship payments and related expenses. The earliest records available were for the 1995 - 1996 school year.

St. Petersburg Junior College - On January 24, 1996, the PPIC, (predecessor to the PWDB) entered into a memorandum of agreement (MOA) with the St. Petersburg Junior College

(SPJC). The MOA provided that the payment condition of each participant's training agreement would be noted as either "at enrollment" or "by semester." "At enrollment" agreements would be paid, in full, at the time the agreements were approved by the training vendor and PPIC.

On July 2, 1998, SPJC, PWDB, and COPI, modified the MOA. This modification provided that COPI would establish funded accounts at SPJC in participants' names for tuition, fees, books and supplies necessary for participants to complete the agreed-upon training programs. The accounts were valid for the entire training period.

Records we obtained from SPJC showed that through Session III of the 1998-1999 school year, training accounts had been established for a total of 134 participants. Of the $502,805.96 which had been deposited in the training accounts, $254,989.59 had been spent, $179,855.16 remained in active participants accounts and the balance of $67,961 involved funds for participants who were no longer enrolled in school.

On September 16, 1999, SPJC informed PWDB that the outstanding credit balances for participants no longer enrolled in training was $67,961. PWDB gave COPI permission to commit the remaining balance to other participants. Records we obtained from SPJC indicated 8 training accounts totaling $33,958 had been established and $12,040 had been spent against these 8 training accounts. A total of $34,003 remained as a credit balance in the SPJC training accounts.

PTEC - St. Petersburg Campus - On April 16, 1998, COPI entered into an MOU with PTEC's St. Petersburg Campus (PTEC-S). The MOU established participant scholarships for the anticipated costs of participants' tuition, fees, books and supplies necessary to complete agreed-upon training programs. Funding provided was sufficient for the entire period participants were expected to be in school.

Records we obtained from PTEC-S indicated 57 training accounts were established for $73,159. As of March 9, 1999, charges to the training accounts totaled $70,289 and a balance of $2,870 remained.

On September 28, 1999, COPI prepared a reconciliation of PTEC-S training accounts that identified balances totaling $15,042 that related to 25 participants who no longer attended PTEC-S. PTEC-S returned the funds to COPI in two checks. The checks were deposited into COPI's operational checking account. We were informed that these funds would be credited to the proper account during JTPA close-out procedures.

PTEC - Clearwater Campus - On April 16, 1998, COPI entered into an MOU with Pinellas Technical Education Center, Clearwater Campus (PTEC-C). The MOU established

participant scholarships for tuition, fees, books and supplies necessary for participants to complete agreed-upon training programs. The scholarships encompassed all training the participant was expected to receive.

PTEC-C's records indicated that training accounts had been established for a total of 24 participants. PTEC-C's December 31, 1999, trial balance indicated $40,858 had been used to fund the accounts, $26,279 had been spent and a balance of $14,579 remained in the accounts.

All three of the MOUs provided that funds remaining in a scholarship would be returned to COPI, when a participant completed training, dropped out or was dismissed from school, or termination from the JTPA program by COPI. COPI was to prepare an invoice each semester identifying the funds to be returned for each student who had stopped attending school or was no longer JTPA-funded. At the end of each enrollment period, the training provider was to furnish COPI a report that indicated any charges made against students' scholarships and was to assist COPI in resolving any discrepancies. However, COPI did not request refunds of credit balances remaining in the accounts of participants who had terminated from training. Further, training providers did not furnish COPI with the required reporting of charges made against participants' accounts.

OTHER CASH MANAGEMENT ISSUES

COPI maintained an interest-bearing checking account (0.752 percent) with Huntington National Bank. JTPA funds were drawn down and deposited in this account, which is also the depository for all other COPI operating funds. An analysis of this account for the period January 1, 1999 through December 31, 1999, showed an average monthly bank balance of $1,189,452 that earned interest income of $9,143. The average corresponding book balance was $582,089.

EXHIBIT 1

THE COMPLETE TEXT OF FLORIDA'S RESPONSE
TO THE DRAFT AUDIT REPORT
Is Presented on Subsequent Pages