STATE OF MICHIGAN

EVALUATION OF GRANT OBLIGATIONS AND EXPENDITURES

WORKFORCE INVESTMENT ACT GRANTS AND JOB TRAINING PARTNERSHIP ACT TRANSITION FUNDS

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

JULY 1, 2000 THROUGH MARCH 31, 2002

This agreed-upon procedures report was prepared by Harper, Rains, Stokes and Knight, P.A., under contract to the U.S. Department of Labor, Office of the Inspector General, and by acceptance it becomes a report of the Office of Inspector General.

Elliot P. Lewis

Assistant Inspector General For Audit
U.S. Department Of Labor

Report No: 04-03-007-03-390
Date Issued: March 28, 2003

HARPER, RAINS, STOKES, & KNIGHT, P.A.

TABLE OF CONTENTS

Acronyms iii

Independent Accountant's Report on Applying Agreed-Upon Procedures 1

Summary of Results 2

Background, Scope and Methodology 3

Background 3
Scope and Methodology 4

Procedures and Findings 5

Exhibit I – Sample Financial Status Report

Exhibit II – The State of Michigan's Response

ACRONYMS

AY	Allocation Year
CFR	Code of Federal Regulations
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
FIFO	First In, First Out
FSR	Financial Status Report
FY	Fiscal Year
JTPA	Job Training Partnership Act
MDCD	Michigan Department of Career Development
MWA	Michigan Workforce Development Agency (MWA)
OIG	Office of the Inspector General
PY	Program Year
QER	WIA Quarterly Expenditure Report
WIA	Workforce Investment Act

HARPER, RAINS
STOKES & KNIGHT

Mr. Elliot P. Lewis
Assistant Inspector General for Audit
Office of Inspector General
U.S. Department of Labor

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We 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 for evaluating the State of Michigan's obligation and expenditure activities for available Job Training Partnership Act (JTPA) balances and Workforce Investment Act (WIA) funds, which occurred during the period July 1, 2000 through December 31, 2001. For one procedure, we obtained obligation information for the March 31, 2002 reporting period.

The Michigan Department of Career Development (MDCD) is responsible for reporting grant obligations and expenditures to the Employment and Training Administration (ETA). ETA is responsible for recording grant obligations, reported expenditures and payments 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 the procedures performed is the responsibility of OIG. Consequently, we make no representation regarding the sufficiency of the procedures performed 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 amounts reported on by the State as obligations, expenditures, and unobligated balances. 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.

Harper, Rains, Stokes & Knight, P.A.

August 16, 2002

Harper, Rains, Stokes & Knight, P.A. • Certified Public Accountants • Consultants
One Hundred Concourse • 1052 Highland Colony Parkway, Suite 100 • Ridgeland, Mississippi 39157
Telephone 601.605.0722 • Facsimile 601.605.0733 • URL: http://www.hrsk.com

SUMMARY OF RESULTS

We summarized the WIA funds obligated and expended by the State of Michigan as of December 31, 2001. We determined that obligation information reported on Financial Status Reports (FSRs) included actual obligations for statewide activities. However, obligations reported for Local Board activities represented amounts passed through to Local Boards, not just amounts that Local Boards had actually obligated.

We found that accounting records supported amounts reported as obligations and expenditures on FSRs. Procedures were established for recording transactions on the accrual basis of accounting in accordance with Federal regulations. Obligations and expenditures reported to the State were substantiated by monthly reports submitted by Local Boards.

As of December 31, 2001, Michigan had expended \$107 million, or 65 percent of the \$164.5 million awarded, leaving \$57.5 million or 35 percent unexpended. At this rate of spending, it would take almost 10 months to spend the remaining funds, during which time the State would receive additional WIA allocations.

The State and Local Boards charged expenditures to WIA grants on a First-In-First-Out basis, rather than matching Program Year (PY) expenditures with the grant applicable to the period in which expenditures accrued. As a result, actual cost of program operations for a particular PY cannot be determined.

State of Michigan's Response

The Michigan Department of Career Development provided a written response to our draft report, which is included in its entirety at Exhibit II. In general, the State agreed with the information presented in the report, but provided additional comments. Michigan stated that charging expenditures to WIA grants on a FIFO basis is an acceptable practice under 20 CFR Part 667.107 (a).

Our procedures were not intended to determine Michigan's compliance with program requirements. However, by using the FIFO basis, Michigan does charge current expenditures to prior period funds until exhausted.

Background

WIA, enacted in 1998, was designed to reform prior Federal job training programs and create a new comprehensive workforce investment system. The new system intends to provide customer-focused services, assist Americans in accessing the tools needed to manage their careers through information and services, and assist U.S. companies in finding skilled workers. The WIA superseded the JTPA and amended the Wagner-Peyser Act.

Initial grants for the WIA program were awarded by DOL, ETA, beginning in PY 2000. However, unexpended funds from the PY 1998 and PY 1999 JTPA programs were authorized for transition into the WIA program. Generally, the states are required to pass through approximately 85 percent of the awards received from DOL to Local Boards (subrecipients). In Michigan, Local Boards are known as Michigan Workforce Development Agencies (MWAs).

States have the original program year plus two additional program years to spend the grant funds. However, funds allocated by a State to a Local Board for any program year are available for expenditure only during that program year and the succeeding program year. Funds that are not expended by a Local Board in this two-year period must be returned to the State.

States are required to report WIA activities on quarterly Financial Status Reports (FSRs). Accrued expenditures and obligations are key items reported on the FSRs. Accrued expenditures are reported when a valid liability has been created through delivery of goods or services, regardless of when cash payment is made. For example, salaries earned by employees, but not yet paid, should be recorded as accrued expenditures. Obligations are reported when certain events occur which will require payment by the States or Local Boards in the same or a future period. Obligations are defined in the WIA regulation as follows:

> . . .the amounts of orders placed, contracts and **subgrants awarded**, goods and services received, and similar transactions during a funding period that will require payment by the recipient or subrecipient during the same or a future period [20 CFR 660.300] (emphasis added).

However, according to ETA, Office of Grants and Contract Management, States have been verbally instructed to report obligations for Statewide Activities and Rapid Response only for those amounts of funding for which a legal liability exists at the State level. Likewise, the State has been instructed to report obligations for Local Board activities (Local Administration, Youth, Adult, and Dislocated Workers) only for those amounts of funding for which a legal obligation exists at the Local Board level. ETA had not clearly specified whether Local Boards' obligations or States' pass-through awards should be included on FSRs.

Scope and Methodology

Our agreed-upon procedures include WIA funds awarded to Michigan for PY 2000, Fiscal Year (FY) 2001, PY 2001 and FY 2002, as well as PY 1998 and PY 1999 JTPA funds transitioned into the WIA program. Procedures were applied to grant activities reported by the State and three MWAs (Capital Area Michigan Works, City of Detroit Michigan Works and Career Alliance Michigan Works) from July 1, 2000 through December 31, 2001. For procedure number 7, we obtained information subsequently reported by the State and MWAs for the March 31, 2002 reporting period.

In general, our procedures were designed to summarize Michigan's WIA financial activity (obligations and expenditures) through December 31, 2001, to determine if the amounts reported to ETA agreed with supporting accounting records, and to measure the extent to which the State and MWAs have obligated and expended WIA funds.

PROCEDURES AND FINDINGS

1. **Interview the appropriate MDCD personnel regarding how information is accumulated from the MWAs and about the preparation of the FSRs. Using this information, verify exactly what obligations were reported on the December 31, 2001 WIA Quarterly Financial Status Reports. Determine if the amounts passed through to the MWAs are reported as obligations on the FSRs. Based on the information obtained, determine if the MDCD is reporting obligations as described at 20 CFR 660.300 to include subgrants awarded to subrecipients.**

   As of December 31, 2001, amounts reported as "obligations" on FSRs for the Adult, Youth and Dislocated Worker programs as well as Local administrative expenses were funds that MDCD had allocated to the MWAs, not legal obligations for WIA services. However, for Statewide Activities and Rapid Response, the amounts reported as "obligations" were legal obligations to service providers.

   MWAs report to the State using Quarterly Expenditure Reports (QERs) that are comparable to FSRs used by MDCD to report obligations to DOL. QERs are submitted to the State by the 20^{th} day following the end of each calendar quarter.

   According to MDCD, funds passed through to Local Boards are considered to be "obligated" at the time the funds are allocated to the Local Boards. Reporting of funds passed to Local Boards as "obligated" does not take into account whether legal obligations exist.

   Our review of MDCD's support for their FSRs confirmed that obligations reported on the FSRs represented amounts awarded as subgrants to subrecipients.

   ETA had not clearly specified whether Local Board obligations or the State's pass-through awards should be included on these reports.

2. **Determine how MDCD tracks the various funding periods for both MDCD and MWA activities, and if data is accounted for in a manner that will allow expenditures to be matched against the appropriate obligation**

   Based on discussions with representatives of MDCD as well as examination of financial records at MDCD and MWAs, we determined that MDCD does not match expenditures with the appropriate fiscal period's funding. Rather, current expenditures are charged against the earliest available funding.

Expenditure information reported to MDCD by MWAs was identified by funding period; however, reported expenditures were charged to the earliest year that funding remained available, rather than the year in which expenditures accrued. As a result, a program's cost could not be matched with the period for which it was funded.

3. **Determine if the expenditure information (Outlays on the December 31, 2001 FSRs) was reported on the accrual basis of accounting as required at 29 CFR 97 and the WIA reporting instructions at 20 CFR 667.300 (c) (3).**

As discussed in greater detail at item 8 of this report, QERS contain, among other things, the amounts of accrued expenditures incurred to date by MWAs. These amounts then roll up into the Federal FSR as "Outlays".

We reviewed reporting instructions provided by MDCD to MWAs and determined that amounts identified as "accrued expenditures" should include expenditures that have been incurred but for which payment has not been made by MWAs. This manner of reporting is consistent with the accrual basis of accounting required by 29 CFR 97 and instructions at 20 CFR 667.300.

We made specific inquiries of Local Board representatives regarding the inclusion of accruals in the amounts reported as expenditures to the State. Representatives of the Local Boards stated that amounts reported as expenditures were, in fact, inclusive of accruals as instructions required.

4. **Determine what information is required to be reported by MWAs to MDCD, including the content, format, frequency and any written instructions issued by MDCD. Obtain copies of reports submitted by MWAs and copies of written instructions.**

Our review of MDCD's Fiscal Reporting Instruction guidelines, discussions with representatives of MDCD, and a review of QERs for the quarter ending December 31, 2001, revealed that MWAs are required to report total Federal funds available, accrued expenditures, unobligated balances, and where applicable, program income.

5. **Obtain or prepare from documents supporting FSRs, a summary of QERs from the MWAs, and analyze this information to select MWAs to visit.**

We obtained MDCD's "Composite Accrued Expenditures Reports" that summarized obligation and expenditure information for MWAs. Utilizing this report, we made a judgmental selection of three MWA offices in which to conduct fieldwork. MWAs selected for site visits were Capital Area MWA, City of Detroit MWA and Career Alliance MWA.

6. Compare the information compiled at ETA to the reports prepared by MDCD and explain any differences determined.

We compared FSRs reported to DOL by MDCD to corresponding data we compiled at ETA. Information on the FSRs agreed to information compiled at ETA. Key elements of FSR data were extracted from the reports, including Total Federal Funds Authorized, Obligations, Outlays (accrued expenditures), and Unobligated Balance of Federal Funds for each PY and FY. The extracted data was used to perform analytical procedures described at item 7 of this report.

7. Perform an analytical review of the information obtained to develop trend information and investigate any unusual relationships noted.

<u>Total Federal Funds Authorized</u>

The table below shows total WIA funds awarded by DOL to MDCD since inception of the WIA program:

Funding Period	Beginning of Spending Period	Expiration of Spending Period	Total WIA Funds Awarded
PY 1998	JTPA transition	June 30, 2001	$ 113,821
PY 1999	JTPA transition	June 30, 2002	$ 10,511,243
PY 2000	July 1, 2000	June 30, 2003	$ 43,150,489
FY 2001	October 1, 2000	June 30, 2003	$ 35,227,909
PY 2001	July 1, 2001	June 30, 2004	$ 43,236,903
FY 2002	October 1, 2001	June 30, 2004	$ 33,020,700
<u>Less:</u>	Rescission of PY 2001 funds		($ 773,029)
	Total Awards		**$ 164,488,036**

WIA funds are awarded on a PY basis from July 1 to June 30, except for Youth grants that are available in the April preceding the start of the PY. However, a portion of PY 2000 and 2001 funding, denoted as "FY" above, was not available until October 1 of each respective PY.

7. (Continued)

WIA Funds Obligated

Data presented below reflects total WIA funds reported to ETA as obligated by MDCD as of December 31, 2001.

Funding Period	Total Funds Awarded (in millions)	Total WIA Funds Obligated (in millions)	Amount Unobligated (in millions)	Percent of Funding Unobligated
PY 1998	$ 0.1	$ 0.1	$ 0.0	0.0%
PY 1999	$ 10.5	$ 10.5	$ 0.0	0.0%
PY 2000	$ 43.2	$ 43.2	$ 0.0	0.0%
FY 2001	$ 35.2	$ 34.6	$ 0.6	1.7%
PY 2001	$ 43.2	$ 43.0	$ 0.2	0.5%
FY 2002	$ 33.0	$ 28.3	$ 4.7	14.2%
Less: PY 2001 Rescission	($ 0.8)	N/A	($ 0.8)	N/A
Total	**$ 164.5**	**$ 159.8**	**$ 4.7**	**2.9%**

Note: Information in the above table was obtained from quarterly Financial Status Reports prepared by MDCD and summarized. Additionally, a portion of PY 2001 funding was rescinded as noted above. In some instances, the individual amounts in the above columns do not sum to the amount presented as "Total" due to rounding differences.

Of the total $164.5 million of funding available, $4.7 million (2.9 percent) remained unobligated as of December 31, 2001. However, as discussed at item 1 of this report, in addition to obligations made at the State level, Michigan reports funds to be "obligated" upon their allocation of the funds to the MWAs, even though the MWAs have not legally obligated the funds.

7. (Continued)

WIA Funds Obligated - Continued

DOL-OIG requested that we determined "actual obligations" for only those amounts for which a legal liability existed as of March 31, 2002.

In order to arrive at the amount of actual obligations for which a legal liability existed at March 31, 2002, we subtracted the amounts reported to MDCD as "unobligated" from total allocations made to each MWA. We combined actual obligations for MWAs, with obligations for State-level Activities to dervive total actual obligations for Michigan.

Funding Period	Total Funds Awarded (in millions)	Total WIA Funds Obligated (in millions)	Amount Unobligated (in millions)	Percent of Funding Unobligated
PY 1998	$ 0.1	$ 0.1	$ 0.0	0.0%
PY 1999	$ 10.5	$ 10.5	$ 0.0	0.0%
PY 2000	$ 43.2	$ 43.2	$ 0.0	0.0%
FY 2001	$ 35.2	$ 35.0	$ 0.2	0.6%
PY 2001	$ 43.2	$ 43.2	$ 0.0	0.0%
FY 2002	$ 33.0	$ 29.5	$ 3.5	10.6%
Less: PY 2001 Rescission	($ 0.8)	N/A	($ 0.8)	N/A
Total	**$ 164.5**	**$ 161.5**	**$ 2.9**	**1.8%**

Note: Information in the above table regarding actual obligations was obtained from MDCD and summarized. Additionally, a portion of PY 2001 funding was rescinded as noted above. In some instances, individual amounts in the above columns do not sum to the amount presented as "Total" due to rounding differences.

Our analysis of the additional information provided by Michigan shows that, of the total $164.5 million of funding available, $161.5 million (98.2 percent) was actually obligated. Only $2.9 million (1.8 percent) remained unobligated as of March 31, 2002. This was $1.7 million more than obligations reported at December 31, 2001.

7. (Continued)

Total Federal Expenditures

The following summary reflects total WIA expenditures reported by MDCD through December 31, 2001. These amounts are recorded in DOL's general ledger.

Funding Period	Total Funds Awarded (in millions)	Total Expenditures (in millions)	Amount Unexpended (in millions)	Percent of Funding Unexpended
PY 1998	$ 0.1	$ 0.1	$ 0.0	0.0 %
PY 1999	$ 10.5	$ 10.4	$ 0.1	1.0 %
PY 2000	$ 43.2	$ 41.0	$ 2.1	4.9 %
FY 2001	$ 35.2	$ 31.9	$ 3.3	9.4 %
PY 2001	$ 43.2	$ 22.9	$ 20.4	47.2 %
FY 2002	$ 33.0	$ 0.7	$ 32.3	97.9 %
Less: PY 2001 Rescission	($ 0.8)	N/A	($ 0.8)	N/A
Total	**$ 164.5**	**$ 107.0**	**$ 57.5**	**34.9 %**

Note: Information in the above table was obtained from quarterly Financial Status Reports prepared by MDCD and summarized. Additionally, a portion of PY 2001 funding was rescinded as noted above. In some instances, individual amounts in the above columns do not sum to the amount presented as "Total" due to rounding differences.

Of the $164.5 million awarded, the MDCD had spent $107 million (65.1 percent), leaving $57.5 million (34.9 percent) unspent as of December 31, 2001. At this rate of spending, it would take almost 10 months to spend the remaining funds, during which time the State would receive additional WIA allocations.

7. (Continued)

Expenditure Analysis by Funding Stream

The following provides a summary of unspent funding by program component:

Program Component	Amount Awarded (in millions)	Amount Unexpended (in millions)	Percent of Funding Unexpended
MWA Activities:			
Adults	$ 45.8	$ 14.6	31.9 %
Dislocated Worker	$ 34.8	$ 12.5	35.9 %
Local Admin	$ 14.4	$ 5.3	36.8 %
Youth	$ 49.2	$ 16.8	34.1 %
Total MWA Activities	$ 144.2	$ 49.2	34.1 %
State Activities:			
State-wide Activities	$ 19.2	$ 8.2	42.7 %
State-wide Rapid Response	$ 1.8	$ 0.8	44.4 %
Total State Activities	$ 21.0	$ 9.0	42.9 %
Less: PY 2001 Rescission	($ 0.8)	($ 0.8)	N/A
Total Funding	**$ 164.5**	**$ 57.5**	**34.9%**

Note: Information in the above table was obtained from quarterly Financial Status Reports prepared by MDCD and summarized. Additionally, a portion of PY 2001 funding was rescinded as noted above. In some instances individual amounts in the above columns do not sum to the amount presented as "Total" due to rounding differences.

Cost data submitted by MDCD through December 31, 2001, indicates that a significant amount of WIA funds at both the State and MWA levels were not spent as of that date (42.9 percent and 34.1 percent, respectively).

8. **Interview appropriate MWA personnel regarding how information is accumulated and about preparation of MWA reports to MDCD. Inquire as to the source of obligation, cost and/or payment information reported to MDCD by MWA, and determine if information reported agrees with corresponding source accounting records.**

   Expenditure and funding availability is reported by MWAs to MDCD using QERs. While obligations were not reported by MWAs, unobligated balances were reported. Therefore, obligated balances could be derived.

   Separate QERs were not prepared for each PY and FY. PY and FY funding is combined at the State level before allocation to the MWAs as Program Year funds. However, MDCD charged expenditures reported by MWAs to PY and FY funded periods on a FIFO basis.

   We reviewed source accounting records at the three MWAs we visited in order to determine if they supported the information reported to MDCD. MWAs provided us with documentation in the form of reports and schedules that supported amounts reported as expenditures and unobligated funds.

9. **Determine how MWAs tracks various funding periods and if data is reported and accounted for in a manner which will allow expenditures to be matched against the appropriate obligation or subcontract agreement.**

   The MWAs employ FIFO methodology in associating period expenditures with funding sources. This methodology does not allow for the matching of a particular period's expenditures with the funding allotted to that period. As such, expenditures reported by MWAs were not matched with appropriate funding. Rather, expenditures were charged against prior period funds until those funds had been exhausted, and then charged to a subsequent period's funding.

   For example, any amount of PY 2000 funding that remained after PY 2000 had lapsed would be used to satisfy a subsequent period's expenditures until all of PY 2000 funding was exhausted. PY 2001 funding would subsequently be used to satisfy expenditures. Charging current period expenditures to prior period funding dissociates the funding allotted to a specific period from the cost of that period.

10. Determine how the MWA defines an obligation and the point at which funds are considered to be obligated. Determine if the MWA definition includes only anticipated expenditures to meet bona fide needs of the funding program year and for which a legal liability exists.

At the three Local Boards visited, representatives indicated that the “obligation” of funds coincides with the decision to contract for services under WIA. Obligations are recorded in anticipation of making payments to contractors for bona fide needs of the WIA program. The signing of a contract between the Local Board and a contractor, results in a legal liability.

The Local Boards’ definition includes only anticipated expenditures to meet bona fide needs for which a legal liability exists. However, as mentioned at item number 9 of this report, there is no matching of the funding year and year in which expenditures accrue due to the State’s and Local Boards’ use of FIFO methodology.

EXHIBIT I

SAMPLE FINANCIAL STATUS REPORT

Following this title page is a sample WIA financial status report used to report program activities to DOL.

Workforce Investment Act
Local Adult Program Activities

U.S. Department of Labor
Employment and Training Administration

Financial Status Report

1. Federal Agency and Organizational Element to Which Report is Submitted	2. Federal Grant or Other Identifying Number Assigned By Federal Agency	OMB Approval No. 1205-0408 Expires: 02/29/04	Page of pages
3. Recipient (Name and complete address, including ZIP code)			
4. Employer Identification Number	5. Recipient Account Number or Identifying Number	6. Final Report ☐ Yes ☐ No	7. Basis ☐ Cash ☐ Accrual
8. Funding Year	9. Period Covered by the Report From: (Month, Day, Year)	To: (Month, Day, Year)	

10. Transactions:	Cumulative
a. Total Federal outlays	
b. Refunds, rebates, etc.	
c. Net Federal outlays (Line a minus b)	
d. Recipient outlays for allowable program activities	
e. Net Federal outlays	
f. Federal unliquidated obligations	
g. Total Federal obligations (Line e plus f)	
h. Total Federal funds authorized for this funding period	
i. Transfers from dislocated worker program activities	
j. Transfers to dislocated worker program activities	
k. Adjusted total federal funds available	
l. Unobligated balance of Federal funds (line k minus g)	
Program income consisting of:	
m. Disbursed program income using the addition method	
n. Undisbursed program income	
o. Total program income realized (Line m plus n)	

11. Remarks: Attach any explanations deemed necessary or information required by Federal sponsoring agency in compliance with governing legislation.

12. Certification: I certify to the best of my knowledge and belief that this report is correct and complete and that all outlays and unliquidated obligations are for the purposes set forth in the award documents.

Typed or Printed Name and Title	Telephone (Area code, number and extension)
Signature of Authorized Certifying Official	Date Report Submitted

Persons are not required to respond to this collection of information unless it displays a currently valid OMB control number. Respondents obligation to reply to these reporting requirements are Mandatory (WIA; 20 CFR 652 et al). Public reporting burden for this collection of information is estimates to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestion for reducing this burden to the U.S. Department of Labor, Office of Welare-to-Work, Room N-4716, Washington, D.C. 20210 (Paperwork Reduction Project (1205-0408).

ETA 9076-E (May 2000)

EXHIBIT II

THE COMPLETE TEXT OF MICHIGAN'S RESPONSE TO THE DRAFT AGREED-UPON PROCEURES REPORT

Following this title page is the complete text of Michigan's response to our agreed-upon procedures report, issued to them on March 5, 2003.

STATE OF MICHIGAN
DEPARTMENT OF CAREER DEVELOPMENT
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

DAVID C. HOLLISTER
DIRECTOR

March 20, 2003

Mr. Robert R. Wallace
Regional Inspector General for Audit
U. S. Department of Labor
61 Forsyth Street SW
Atlanta, Georgia 30303

Dear Mr. Wallace:

The Michigan Department of Career Development, Office of Workforce Development (MDCD/OWD) has received and reviewed the draft report, No. 04-03-007-03-390, regarding financial activities of the Workforce Investment Act (WIA) and Job Training Partnership Act transition funds. From our review of the draft report document, we have concerns with your findings to Items No. 2, 7, and 9. MDCD's/OWD's comments to these findings are presented below:

- **Report Item #2**

  Procedure: Determine how MDCD tracks the various funding periods for both MDCD and Michigan Works! Agencies (MWAs) activities, and if data is accounted for in a manner that will allow expenditures to be matched against the appropriate obligation.

  Inspector General's Finding: It was determined that MDCD does not match expenditures with the appropriate fiscal period's funding. Rather, current expenditures are charged against the earliest available funding. As a result, a program's costs could not be matched with the period for which it was funded.

  MDCD's Response: Your finding suggests that WIA funds can be spent only in the Program Year (PY) in which the funds were awarded. However, it is unclear what regulation or basis supports your finding.

  Per WIA regulation 20 CFR Part 667.107(a), and as stated in the ***Background*** section of your draft report: "States have the original PY plus two additional years to spend the grant funds." (Emphasis added.)

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Additionally, Sec. 23(a) of the federal *Office of Management and Budget Circular for Uniform Administration Requirements for Grants and Cooperative Agreements to States and Local Governments* (The Common Rule) states:

> Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

Based on these federal regulations, MDCD's carryover of available WIA fund balances into the subsequent funding period and charging WIA program costs against the earliest available WIA funds is an acceptable practice.

- **Report Item #7**

Procedure: Perform an analytical review of the information obtained to develop trend information and investigate any unusual relationships noted.

Inspector General's Findings:
Under the analysis of *WIA Funds Obligated*, is stated:

> Of the total $164.5 million of funding available, $4.7 million (2.9 percent) remained unobligated as of December 31, 2001. However, in addition to obligations made at the State level, Michigan reports funds to be "obligated" upon their allocation of the funds to the MWAs, even though the MWAs have not legally obligated the funds.

And, under the analysis of *Expenditure Analysis by Funding Stream*, is stated:

> Cost data submitted by MDCD through December 31, 2001, indicates that a significant amount of WIA funds at both the State and MWA levels were not spent as of that date (42.9 percent and 34.1 percent, respectively).

MDCD's Response:
In regard to *WIA Funds Obligated*:
MDCD's reporting of WIA funds for the quarter ending December 31, 2001, was prepared in accordance with U. S. Department of Labor (USDOL), Employment and Training Administration's (ETA) *Training and Employment Guidance Letter* (TEGL) No. 16-99, issued June 23, 2000. As stated in both the ***Background*** section and in ***Item 1*** of the draft report: "ETA had not clearly specified whether Local Board obligations or the State's pass-through awards should be included on the reports." It should be noted that it was not until issuance of TEGL 16-99, Change 1, on November 6, 2002, that the USDOL clarified its definition of obligation for WIA financial reporting purposes.

And, in response to *Expenditure Analysis by Funding Stream*:

> It should be noted that December 31, is the mid-point of the WIA PY. For Michigan to have unspent fund balances of 42.9 percent at the State level, and 34.1 percent at the MWA level at that point of the PY appears reasonable.

Please refer to the attached USDOL-ETA schedule on State Formula Spending for PY 2001 as of 6/30/02 reports, which includes unexpended funds carried-in to PY 2001. This schedule shows that Michigan reported expending 86.1 percent of its total available WIA funds during PY 2001. This expenditure rate achieved by Michigan far exceeded the national average of 61.3 percent, and was second only to the State of Vermont for the highest rate of expenditures for the PY.

- **Report Item #9**

Procedure: Determine how MWAs track various funding periods and if data is reported and accounted for in a manner which will allow expenditures to be matched against the appropriate obligation or subcontract agreement.

Inspector General's Findings: The MWAs employ First In/First Out (FIFO) methodology in associating period expenditures with the funding allotted to that period. As such, expenditures reported by MWAs were not matched with appropriate funding. Rather, expenditures were charged against prior period funds until those funds had been exhausted, and then charged to a subsequent period's funding. Charging current period expenditures to prior period funding dissociates the funding allotted to a specific period from the cost of that period.

MDCD's Response: Your finding suggests that WIA funds can be spent only in the PY in which the funds were awarded. The basis that supports this finding is unclear.

Per WIA regulation 20 CFR Part 667.107 (a) and (b), and as stated in the ***Background*** section of your draft report:

> States have the original program year plus two additional years to spend the grant funds. However, funds allocated by a State to a Local Board for any PY are available for expenditures only during that PY and the succeeding PY. (Emphasis added.)

> Additionally, Sec. 23(a) of the federal *Office of Management and Budget Circular for Uniform Administration Requirements for Grants and Cooperative Agreements to States and Local Governments* (The Common Rule) states:

> Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

Based on these federal regulations, the MWA's charging of WIA program costs against program funds using the FIFO methodology is correct and in compliance for the WIA program.

It is requested that the comments offered above be reviewed and taken into consideration prior to finalization of this report.

If there are any questions regarding the comments offered in this letter, please contact Mr. Ted De Leon, Division Director, Reporting and Monitoring Division, Office of Workforce Development, at (517) 335-5856.

Sincerely,

Vicki Enright, Director
Office of Workforce Development

VE:MC:jl
Enclosure

U. S. Department of Labor
Employment and Training Administration

State Reporting of Formula Spending for Program Year 2001 as of 6/30/02 Reports (as of 9/13/02)
WIA Youth, Adults and Dislocated Workers Programs Combined

State	Unexpended Carry-In To PY 2001	PY 2001 Availability: PY 2001 Allotment 7/1/2001 [*]	PY 2001 Availability: PY 2002 Allotment 10/01/01	PY 2001 Availability: Total PY 2001 Availability	Total Available 7/1/01-6/30/02*	Expenditures 7/1/01-6/30/02*	Expenditures as % of Total Available	Unexpended Balance As of 6/30/02*
					* Includes PY 2001 Youth 4/1/01-6/30/01			
Total	$2,174,126,677	$1,718,505,800	$1,771,133,850	$3,489,638,650	$5,663,759,327	$3,471,430,364	61.3%	$2,192,328,963
Vermont	454,952	4,418,968	2,602,784	7,021,752	7,476,704	6,910,213	92.4%	566,491
Michigan	16,357,498	42,463,874	33,020,700	75,484,574	91,842,072	79,033,955	86.1%	12,808,117
Minnesota	6,287,154	15,048,057	12,848,703	27,896,760	34,183,914	28,927,282	84.6%	5,256,632
Maine	3,428,366	5,555,201	4,617,584	10,172,785	13,601,151	11,314,115	83.2%	2,287,036
Connecticut	8,213,769	13,231,847	9,987,574	23,219,421	31,433,190	25,944,718	82.5%	5,488,472
Idaho	5,708,702	6,268,426	5,381,493	11,649,919	17,358,621	14,211,461	81.9%	3,147,160
Massachusetts	9,944,324	23,401,099	18,509,788	41,910,887	51,855,211	41,707,304	80.4%	10,147,907
Montana	3,310,009	7,418,084	7,688,331	15,106,415	18,416,424	14,779,802	80.3%	3,636,622
Delaware	1,734,324	4,682,971	3,231,925	7,914,896	9,649,220	7,730,000	80.1%	1,919,220
North Dakota	1,839,140	4,360,813	2,628,679	6,989,492	8,828,632	6,924,970	78.4%	1,903,662
Missouri	20,840,415	20,915,753	17,512,732	38,428,486	59,268,900	46,400,812	78.3%	12,868,088
Oregon	18,105,166	26,533,911	29,295,770	55,829,681	73,934,847	57,691,050	78.0%	16,243,797
Illinois	37,387,572	72,771,385	60,763,983	133,535,368	170,922,940	132,985,800	77.8%	37,937,140
Florida	51,604,591	60,892,467	54,508,468	115,400,935	167,005,526	129,484,181	77.5%	37,521,345
Indiana	12,650,002	19,237,854	15,235,063	34,472,917	47,122,919	35,591,457	75.5%	11,531,462
Texas	106,864,243	139,023,801	107,383,985	246,407,786	353,272,029	262,359,945	74.3%	90,912,084
Washington	28,089,447	36,342,464	33,841,570	70,184,034	98,273,481	71,794,416	73.1%	26,479,065
Wisconsin	10,873,446	16,084,924	15,168,936	31,253,860	42,127,306	29,865,355	70.9%	12,261,951
District of Col	7,786,297	7,842,718	8,598,890	16,441,608	24,227,906	17,013,639	70.2%	7,214,266
Rhode Island	3,296,475	4,852,800	3,699,311	8,552,111	11,848,586	8,259,640	69.7%	3,588,946
Maryland	21,181,329	21,515,334	20,847,482	42,362,816	63,544,145	44,123,363	69.4%	19,420,782
Arizona	18,718,797	25,551,797	20,228,764	45,780,561	64,499,358	44,675,139	69.3%	19,824,219
Nevada	5,342,965	6,895,350	6,559,107	13,454,457	18,797,422	13,009,425	69.2%	5,787,997
Oklahoma	14,408,564	14,258,207	11,296,343	25,554,550	39,963,114	27,421,243	68.6%	12,541,871
California	317,239,432	289,854,320	298,455,979	588,310,299	905,549,731	621,261,408	68.6%	284,288,323
Pennsylvania	62,966,660	55,109,360	48,901,744	104,011,104	166,977,764	114,300,903	68.5%	52,676,861
New Jersey	39,514,959	42,177,072	36,024,923	78,201,995	117,716,954	79,645,521	67.7%	38,071,433
Utah	2,717,744	5,360,368	4,810,898	10,171,266	12,889,010	8,612,288	66.8%	4,276,722
Hawaii	16,164,978	8,425,117	8,399,099	16,824,216	32,989,194	21,950,929	66.5%	11,038,265
South Dakota	2,486,506	4,405,918	2,631,401	7,037,319	9,523,825	6,259,331	65.7%	3,264,494
Kentucky	34,874,782	23,259,126	19,202,869	42,461,995	77,336,777	50,827,304	65.7%	26,509,473
North Carolina	26,045,393	26,297,961	23,413,117	49,711,078	75,756,471	49,651,166	65.5%	26,105,305
Colorado	12,095,418	10,678,427	9,827,058	20,505,485	32,600,903	21,360,600	65.5%	11,240,303
Wyoming	3,101,340	4,465,276	2,884,305	7,349,581	10,450,921	6,841,422	65.5%	3,609,499
Tennessee	30,772,436	26,865,144	20,735,770	47,600,914	78,373,350	51,052,534	65.1%	27,320,816
New Hampshire	2,545,009	4,536,875	3,027,440	7,564,315	10,109,324	6,583,329	65.1%	3,525,995
Iowa	5,644,563	6,260,554	5,789,491	12,050,045	17,694,608	11,452,879	64.7%	6,241,729
Kansas	6,445,375	7,194,593	6,875,462	14,070,055	20,516,430	12,994,407	63.3%	7,521,023
Virginia	25,125,030	22,812,971	17,635,180	40,448,151	65,573,181	40,252,476	61.4%	25,320,705
Arkansas	20,663,753	14,676,198	11,947,633	26,623,831	47,287,584	28,411,473	60.1%	18,876,111
South Carolina	23,227,988	21,207,507	17,474,400	38,681,907	61,909,895	36,935,980	59.7%	24,973,916
Ohio	79,472,619	70,454,685	56,643,616	127,098,301	206,570,920	122,665,088	59.4%	83,905,832
Louisiana	43,236,151	33,588,606	30,648,466	64,237,072	107,473,223	60,691,634	56.5%	46,781,589
Nebraska	4,156,690	4,890,567	3,773,971	8,664,538	12,810,228	7,192,491	56.1%	5,617,737
Alabama	18,199,361	28,079,362	22,819,780	50,899,142	69,098,503	38,193,493	55.3%	30,905,010
West Virginia	26,371,003	20,588,982	24,862,326	45,451,308	71,822,311	38,953,690	54.2%	32,868,621
Georgia	42,496,842	33,114,049	28,951,357	62,065,406	104,562,248	56,422,604	54.0%	48,139,644
New York	280,699,120	125,267,300	130,800,346	256,067,646	536,766,766	282,075,614	52.6%	254,691,152
Puerto Rico	163,752,762	111,350,986	150,263,645	261,614,630	425,367,392	223,018,607	52.4%	202,348,785
Mississippi	25,022,776	30,322,285	31,517,488	61,839,773	86,862,549	44,111,675	50.8%	42,750,874
New Mexico	19,190,219	16,594,099	19,918,082	36,512,181	55,702,400	25,579,839	45.9%	30,122,561
Alaska	6,621,621	8,379,756	10,391,145	18,770,901	25,392,522	11,120,748	43.8%	14,271,774
State Total	1,755,277,878	1,654,775,558	1,555,884,966	3,209,860,324	4,965,137,882	3,236,578,718	65.2%	1,728,558,884
Navajo Nation	3,678,959	4,199,564	3,135,034	7,334,598	11,013,547	3,658,626	33.2%	7,354,921
Territories	8,815,370	5,266,276	4,148,487	9,413,763	18,229,133	7,886,707	43.3%	10,342,426
Nat Amer Youth	4,901,011	16,919,475	-	16,919,475	21,820,486	15,359,034	70.4%	6,461,452
DW Nat'l Reserve	401,448,259	37,345,137	208,765,163	246,110,300	647,558,559	207,947,279	32.1%	439,611,280
Emerg	252,550,026	32,116,605	155,052,115	187,168,720	439,718,746	130,971,915	29.8%	308,746,831
Demos	131,698,986	4,436,774	42,845,756	47,282,530	178,981,516	66,298,254	37.0%	112,683,262
TAT	12,341,580	791,758	10,867,292	11,659,050	24,000,630	8,534,110	35.6%	15,466,520
Rapid Response	4,780,470	-	-	-	4,780,470	2,099,330	43.9%	2,681,140
Spec Olympics	77,197	-	-	-	77,197	43,670	56.6%	33,527

[*] Includes $177.5 million rescission for Dislocated Workers Activities and $25 million supplemental for Youth Activities per the Supplemental Appropriations Act, 2001, P.L. 107-20, 7/24/01.

NOTE: Unexpended Carry-in can vary from that reported for previous quarter due to revisions in State reports.