

STATE OF MARYLAND

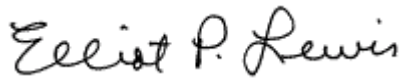
**EVALUATION OF GRANT OBLIGATIONS
AND EXPENDITURES**

**WORKFORCE INVESTMENT ACT GRANTS
AND JOB TRAINING PARTNERSHIP ACT
TRANSITION FUNDS**

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

JULY 1, 2000 THROUGH DECEMBER 31, 2001

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.



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

Report No: 04-03-009-03-390
Date Issued: March 28, 2003

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

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ACRONYMS

CFR	Code of Federal Regulations
DLLR	Maryland Employment and Training Administration, Department of Labor, Licensing and Regulation
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
OIG	Office of the Inspector General
OGCM	Office of Grants and Contract Management
PY	Program Year
QSR	Quarterly Status 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 Maryland's obligation and expenditure activities for available Job Training Partnership Act (JTPA) balances and Workforce Investment Act (WIA) funds that occurred during the period July 1, 2000 through December 31, 2001.

The Maryland Department of Labor, Licensing and Regulation (DLLR) is responsible for reporting grant obligations and expenditures to the Employment and Training Administration (ETA). ETA is responsible for recording grant obligations and reported expenditures in DOL's general ledger.

This agreed-upon procedures engagement was performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of your office as the specified user of the report. Consequently, we make no representation regarding the sufficiency of the procedures performed 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 14, 2002

SUMMARY OF RESULTS

We obtained and summarized the WIA funds obligated and expended as of December 31, 2001, based on records available at DLLR. We determined that the obligation information reported by DLLR included the actual obligations for State-wide activities. However, the portion of obligations reported on the Financial Status Reports (FSRs) attributable to Local Boards included all grant funds passed to the Local Boards, not just the amounts that the Local Boards had actually obligated.

We found that the accounting records supported the amounts reported as obligations and expenditures on FSRs. Procedures were established for recording transactions on the accrual basis of accounting at both State and Local program levels, in accordance with Federal regulations. The amounts of expenditures reported to DLLR by Local Boards were substantiated by reports submitted from the Local Boards.

As of December 31, 2001, Maryland had expended \$54 million of the \$98.4 million awarded, leaving \$44.4 million or 45.1 percent unexpended. At this rate of spending, it would take approximately fifteen months to spend the remaining funds, during which time DLLR would receive additional WIA allocations.

DLLR and Local Boards charged expenditures to WIA grants on a First-In-First-Out (FIFO) basis, rather than matching Program Year (PY) expenditures with the grant applicable to that period in which the expenditures accrued.

State of Maryland's Response

The Maryland Department of Labor, Licensing and Regulation provided a written response to our draft report, dated March 19, 2003, which is included in its entirety at Exhibit II. The State agreed with the information presented in the report.

BACKGROUND, SCOPE AND METHODOLOGY

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. WIA superseded 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). 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 (OGCM), 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 the State's pass-through awards should be included on FSRs.

Scope and Methodology

Our agreed-upon procedures include WIA funds awarded to DLLR for PY 2000, 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 DLLR and three Local Boards (Baltimore City, Baltimore County and Montgomery County) for the period July 1, 2000 through December 31, 2001.

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

PROCEDURES AND FINDINGS

- 1. Interview the appropriate State personnel regarding how information is accumulated from the Local Boards and about the preparation of the FSR. Using this information, verify exactly what obligations were reported on the December 31, 2001 WIA Quarterly FSRs. Determine if the amounts passed through to the Local Boards are reported as obligations on the FSRs. Based on the information obtained, determine if the State 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 Workers programs as well as Local administrative expenses were funds that DLLR had allocated to Local Boards, not legal obligations to service providers. Amounts reported as Federal obligations on FSRs for State-level activities did represent legal obligations to service providers.

The Local Boards reported financial activities to DLLR using a “Quarterly Status Report” (QSR). During our review period (July 1, 2000 to December 31, 2001), Local Boards did not report obligations to DLLR nor did their financial systems capture obligations. Instead, only the Local Boards’ available funds and expenditures were reported to DLLR. Using the information reported on QSRs, DLLR prepared a summary schedule of expenditures and obligations that detailed the amounts of expenditures at each Local Board along with each of the Board’s funding allocations.

According to representatives of DLLR, amounts passed through to Local Boards are considered “obligated” at the time the funds are allocated to Local Boards. Reporting of funds passed to Local Boards as “obligated” does not consider whether bona fide legal obligations exist, and may overstate reported obligations.

ETA did not provide Maryland clear instructions interpreting 20 CFR 660.300 regarding whether Local Board legal obligations or State pass-through awards should have been reported on the FSRs. Based on our review of schedules and detail reports provided as support for the FSRs, we determined that obligations reported on the FSRs represented amounts awarded as subgrants to subrecipients, not legal obligations. Consequently, DLLR is reporting obligations as defined in 20 CFR 660.300, not as ETA contends they were verbally instructed to report.

2. Determine how DLLR tracks the various funding periods for both DLLR activities and Local Board 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 DLLR as well as examination of financial records at DLLR and Local Boards, we determined that DLLR does not match expenditures with the appropriate fiscal period's funding. Rather, expenditures of a given period are charged against the oldest available funding.

Expenditure information reported to the DLLR by the Local Boards was identified by funding period; however, reported expenditures were charged to the earliest year that funding was available, rather than the year in which the 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, Local Boards used QSRs to report to DLLR. These quarterly reports detail the amounts of expenditures incurred by Local Boards in addition to total funding allocated to Local Boards. DLLR rolls the accrued expenditures up into the Federal FSR as "Outlays".

We reviewed the instructions provided by DLLR to the Local Boards and determined that the amounts identified as "accrued expenditures" should include expenditures that have been incurred, but for which payment has not been made by the Local Boards. This manner of reporting is consistent with the accrual basis of accounting required by 29 CFR 97 and the 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 DLLR. Representatives of the three Local Boards we visited stated that amounts reported as expenditures included accruals, as the instructions required.

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

Our review of the Fiscal Reporting Requirements established by DLLR and distributed to the Local Boards, and discussions with representatives of DLLR, indicated that the Local Boards are required to report available funding, Federal accrued expenditures, program income, program income expenditures, total grantee funds expended for WIA, and transfers to and from other funding streams.

Obligation information was not reported on the QSRs for our review period. DLLR representatives told us that they had intended for Local Boards to report obligations, but Local Boards opposed the practice due to concerns over losing funding should the level of obligations reported fall below 80 percent. However, the practice of reporting obligations to DLLR has since been instituted, effective July 1, 2002.

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

We obtained a report from DLLR summarizing allocations and expenditures at Local Boards. Utilizing this information, we made a judgmental selection of three Local Board offices in which to conduct fieldwork. The Local Boards selected for site visits were Baltimore City, Baltimore County and Montgomery County.

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

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

Total Federal Funds Authorized

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

Funding Year	Beginning of Spending Period	Expiration of Spending Period	Total WIA Funds Awarded
PY 1998	JTPA transition	June 30, 2001	\$ 809,849
PY 1999	JTPA transition	June 30, 2002	\$ 11,081,699
PY 2000	July 1, 2000	June 30, 2003	\$ 22,762,126
FY 2001	October 1, 2000	June 30, 2003	\$ 21,383,918
PY 2001	July 1, 2001	June 30, 2004	\$ 22,892,643
FY 2002	October 1, 2001	June 30, 2004	\$ 20,847,482
Less	Rescission of PY 2001 funds		(\$ 1,377,309)
	Total Awards		\$ 98,400,408

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 obligated by DLLR, 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	\$ 0.8	\$ 0.8	\$ 0.0	0.0 %
PY 1999	\$ 11.1	\$ 11.1	\$ 0.0	0.0 %
PY 2000	\$ 22.8	\$ 22.8	\$ 0.0	0.0 %
FY 2001	\$ 21.4	\$ 21.1	\$ 0.3	1.4 %
PY 2001	\$ 22.9	\$ 22.9	\$ 0.0	0.0 %
FY 2002	\$ 20.8	\$ 18.0	\$ 2.8	13.5%
Less: PY 2001 Rescission	(\$ 1.4)	N/A	(\$ 1.4)	N/A
Total	\$ 98.4	\$ 96.6	\$ 1.8	1.8%

Note: Information in the above table was obtained from the Quarterly Financial Status Reports prepared by DLLR 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 the amounts presented as the total due to rounding differences.

Of the total \$98.4 million of funding available, only \$1.8 million (1.8 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, DLLR reports funds to be “obligated” upon allocation to Local Boards.

7. (Continued)

Total Federal Expenditures

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

Funding Year	Total Funds Awarded (in millions)	Total Expenditures (in millions)	Amount Unexpended (in millions)	Percent of Funding Unexpended
PY 1998	\$ 0.8	\$ 0.8	\$ 0.0	0.0 %
PY 1999	\$ 11.1	\$ 9.7	\$ 1.4	12.6 %
PY 2000	\$ 22.8	\$ 21.6	\$ 1.2	5.3 %
FY 2001	\$ 21.4	\$ 12.7	\$ 8.7	40.7 %
PY 2001	\$ 22.9	\$ 9.2	\$ 13.7	59.8 %
FY 2002	\$ 20.8	\$ 0.0	\$ 20.8	100.0 %
Less: PY 2001 Rescission	(\$ 1.4)	N/A	(\$ 1.4)	N/A
Total	\$ 98.4	\$ 54.0	\$ 44.4	45.1 %

Note: Information in the above table was obtained from quarterly Financial Status Reports prepared by DLLR and summarized. Additionally, a portion of PY 2001 funding was rescinded as noted above.

Of \$98.4 million in total WIA funds awarded to DLLR, they spent \$54 million (54.9 percent), leaving \$44.4 million (45.1 percent) unspent as of December 31, 2001. At this rate of spending, it would take approximately fifteen months to spend the remaining funds, during which time DLLR would receive additional WIA allocations.

7. (Continued)

Expenditure Analysis by Funding Stream

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

Program Component	Amount Awarded (in millions)	Amount Unspent (in millions)	Percent Unspent
<u>Local Board Activities:</u>			
Adults	\$ 23.0	\$ 10.4	45.2%
Dislocated Worker	\$ 24.3	\$ 11.6	47.7%
Local Admin	\$ 8.7	\$ 4.0	46.0%
Youth	\$ 23.2	\$ 8.5	36.6%
Total Local Board Activities	\$ 79.2	\$ 34.5	43.6%
<u>State Activities:</u>			
State-wide Activities	\$ 14.8	\$ 8.5	57.4%
State-wide Rapid Response	\$ 5.8	\$ 2.8	48.3%
Total State Activities	\$ 20.6	\$ 11.3	54.9%
Less: PY 2001 Rescission	(\$ 1.4)	(\$ 1.4)	N/A
Total Funding	\$ 98.4	\$ 44.4	45.1%

Note: Information in the above table was obtained from quarterly Financial Status Reports prepared by DLLR and summarized. Additionally, a portion of PY 2001 funding was rescinded as noted above.

The expenditure data submitted by DLLR through December 31, 2001, indicates that \$11.3 million (54.9 percent) and \$34.5 million (43.6 percent) of WIA funds at DLLR and Local Board levels respectively, were not spent as of that date.

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

Through discussions with Local Board personnel, we determined that they report available funding, Federal accrued expenditures, program income, program income expenditures, total grantee funds expended, and transfers on the QSRs. We obtained copies of these reports from DLLR as well as Local Boards during our visits.

We reviewed source accounting records at the three Local Boards we visited, to determine if they agreed to information reported to DLLR. In all instances, the Local Boards provided us with documentation supporting the amounts reported as available funding and expenditures.

9. **Determine how the Local Board tracks the 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 Local Boards 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. Expenditures reported by Local Boards are not matched with funding applicable to the period in which the expenditures accrued. Rather, current expenditures are charged against prior period funds until exhausted and then matched against subsequent periods' funding.

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

- 10. Determine how the Local Board defines an obligation and the point at which funds are considered to be obligated. Determine if the Local Board definition includes only anticipated expenditures to meet bona fide needs of the funding program year 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. Funds are obligated in anticipation of making payments to contractors, for bona fide needs of the WIA program. Legal obligations are created when Local Boards sign contracts. Thus, the Local Board’s 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 appropriate matching of the funding year and program year expenditures due to DLLR’s and Local Boards’ use of FIFO methodology. Also, as mentioned at item number 8 of this report, the Local Boards neither track nor do they report obligations to DLLR.

SAMPLE FINANCIAL STATUS REPORT

Following this title page is a 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		OMB Approval No. 1205-0408	Page of
1. Federal Agency and Organizational Element to Which Report is Submitted	2. Federal Grant or Other Identifying Number Assigned By Federal Agency	Expires: 02/29/04	pages

3. Recipient (Name and complete address, including ZIP code)

4. Employer Identification Number	5. Recipient Account Number or Identifying Number	6. Final Report <input type="checkbox"/> Yes <input type="checkbox"/> No	7. Basis <input type="checkbox"/> Cash <input type="checkbox"/> Accrual
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8. Funding Year	9. Period Covered by the Report From: (Month, Day, Year)	To: (Month, Day, Year)
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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 Welfare-to-Work, Room N-4716, Washington, D.C. 20210 (Paperwork Reduction Project (1205-0408)).

EXHIBIT II

**THE COMPLETE TEXT OF
MARYLAND'S REPOSE TO THE DRAFT
AGREED-UPON PROCEDURES REPORT**

Following this title page is the complete text of Maryland's response to our agreed-upon procedures report, issued to them on February 28, 2003.



ROBERT L. EHRLICH, Jr., Governor
MICHAEL S. STEELE, Lt. Governor
JAMES D. FIELDER, Jr., Ph.D., Secretary
Division of Employment and Training
Ellen Miller, Assistant Secretary

March 19, 2003

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

Dear Mr. Wallace:

We are in receipt of draft report number 04-03-009-03-390, dated February 28, 2003, that was prepared for the U. S. Department of Labor, Office of Inspector General by the firm of Harper, Rains, Stokes and Knight, PA.

The draft report addressed the State of Maryland's compliance with the U. S. Department of Labor's procedures for reporting grant obligations and expenditures for the Workforce Investment Act Grants and the Job Training Partnership Act Transition Funds covering the period of July 1, 2000 thru December 31, 2001.

We are in agreement with the results identified in the Summary of Results section, the Background, Scope and Methodology section, and the Procedures and Findings section of the draft report.

If you have any questions regarding our response, please contact Mr. James Bittner, Manager, Fiscal Monitoring and Reporting at (410) 767-2812.

Sincerely,

Ron Windsor
Executive Director

cc: Eleanor Carey
James Bittner

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Keeping Maryland Working and Safe

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