

STATE OF OHIO

**EVALUATION OF GRANT OBLIGATIONS,
EXPENDITURES AND PAYMENTS**

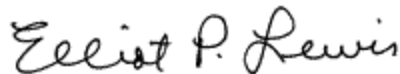
**WORKFORCE INVESTMENT ACT GRANTS
AND JOB TRAINING PARTNERSHIP ACT
TRANSITION FUNDS**

**INDEPENDENT ACCOUNTANTS= REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**GRANTS AND TRANSITION FUNDS AWARDED TO
THE STATE OF OHIO**

JULY 1, 2000 THROUGH DECEMBER 31, 2001

This agreed-upon procedures report was prepared by R. Navarro & Associates, Inc., under contract to the U.S. Department of Labor, Office of Inspector General, and, by acceptance, it becomes a report of the Office of Inspector General.



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

Report No.: 04-02-004-03-390
Date Issued: September 20, 2002

R. NAVARRO & ASSOCIATES, INC.

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ACRONYMS

AICPA	American Institute of Certified Public Accountants
CFR	Code of Federal Regulations
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
FSR	Financial Status Report
FY	Fiscal Year
HHS	U.S. Department of Health and Human Services
JTPA	Job Training Partnership Act
OGCM	Office of Grants and Contract Management
OIG	Office of the Inspector General
PMS	Payment Management System
PY	Program Year
QUIC	Quarterly Information Consolidated System
WIA	Workforce Investment Act
TANF	Temporary Assistance for Needy Families

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

***INDEPENDENT ACCOUNTANTS=REPORT
ON APPLYING AGREED-UPON PROCEDURES***

We have performed the procedures enumerated in the Procedures and Findings section of this report. These procedures were agreed to by the U.S. Department of Labor (DOL), Office of Inspector General (OIG), solely to assist you in evaluating the State of Ohio's obligation, expenditure and payment 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. In certain instances, procedures were applied to information reported as of March 31, 2002.

Management of the State of Ohio 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 the 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. 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 of which this report has been requested or for any other purpose.

The results of our procedures are described in the Procedures and Findings section of this report.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the accompanying information obtained from the respective entities. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the DOL, OIG, and is not intended to be and should not be used by anyone other than the specified party.

June 28, 2002

SUMMARY OF FINDINGS

We identified and summarized the Workforce Investment Act (WIA) funds expended and withdrawn as of December 31, 2001, based on records available at both the State of Ohio and Local Boards, and found that the accounting records supported expenditure amounts reported on quarterly financial reports. However, we found that Financial Status Reports (FSRs) were not prepared on the accrual basis of accounting in accordance with ETA's reporting requirements, and that obligations were overreported. There were varying instructions provided by ETA as to how obligations should be reported by the states for Local Board activities.

The FSRs reflect that all of the \$261.8 million awarded to the State for the WIA program had been obligated as of December 31, 2001. However, this is due to the fact that the State reported obligations equal to the total funds authorized, rather than the actual amounts obligated by the State and Local Boards. According to State officials, beginning in March 2002, ETA requested that the State report unliquidated obligations as footnoted information on the quarterly FSRs. Obligation information reported at March 31, 2002, reflects that \$159.9 million were obligated as of that date, leaving \$101.9 million in unobligated balances.

Expenditures reported at December 31, 2001, reflect that \$93.3 million of the \$261.8 million awarded, had been expended by the State and Local Boards, leaving \$168.5 million or 64.4 percent unexpended. At this rate of spending, it would take over 2 ½ years to spend the remaining funds, in which time the State would have received additional WIA allocations.

Payments drawn down by the State as of December 31, 2001, totaled \$122.6 million. Of this amount, the State spent \$93.3 million, and had available cash of \$29.3 million. This balance represents approximately 6 months of cash needs and is not considered to be compliant with the cash management regulations at 31 CFR 205.20.

State of Ohio's Response

The Ohio Department of Job and Family Services provided a written response to our draft report, dated September 9, 2002, which is included in its entirety at Exhibit IV. In general, the State agreed with the information presented in the report. We considered Ohio's response and made appropriate changes, including immaterial adjustments to certain amounts.

BACKGROUND, SCOPE AND METHODOLOGY

Background

WIA was enacted in 1998. The WIA program was designed to reform prior Federal job training programs and create a new comprehensive workforce investment system. The reformed 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 Act superseded the Job Training Partnership Act and amended the Wagner-Peyser Act.

Initial grants for the WIA program were awarded by DOL ETA beginning in Program Year (PY) 2000. However, unexpended funds from the PY 1998 and PY 1999 JTPA state grants 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 2-year period must be returned to the state.

States are required to report WIA activities on quarterly FSRs. Accrued expenditures and obligations are key items reported on the FSRs. Accrued expenditures are reported when a 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].

According to ETA, Office of Grants and Contract Management (OGCM), states have been instructed to report obligations incurred at the state level (Statewide Activities and Rapid Response) at the time obligations are incurred by the state. However, for Local Board activities (Local Administration, Youth, Adult and Dislocated Workers), states have been instructed to report obligations at the time they are incurred by the Local Boards. This requires the states to collect and consolidate obligation information for all of the Local Boards located within the state.

WIA grantees obtain grant funds through the U.S. Department of Health and Human Services' (HHS), Payment Management System (PMS). Once ETA awards a grant, the recipient can obtain online access to the PMS system and draw down grant funds on a daily basis.

With the transition of JTPA to WIA, the State of Ohio implemented a significant reorganization that increased the number of counties acting as service areas. Under JTPA, the State of Ohio was organized into 31 Private Industry Councils/Boards that provided JTPA services to assigned State Counties. Under WIA, the State reorganized, resulting in an increase in the number of service areas. Currently, there are 8 WIA service areas, of which one local area includes 57 sub-areas.

Scope and Methodology

Our agreed-upon procedures encompassed WIA funds awarded to the State of Ohio 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 the State and two Local Boards from July 1, 2000 through December 31, 2001. In certain instances, we obtained information subsequently reported by the State and Local Boards for the March 31, 2002, reporting period.

In general, our procedures were designed to summarize the State of Ohio's WIA financial activity (obligations, payments 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 the State and Local Boards have obligated, expended and drawn down WIA funds.

PROCEDURES AND FINDINGS

1. Identify and summarize the total WIA grant funds awarded by the DOL to the State as of December 31, 2001.

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

Funding Period	Beginning of Spending Period	Expiration of Total WIA Funds Spending Period	Awarded
PY 1999/8	JTPA transition	June 30, 2002	\$ 19.0 million
PY 2000	July 1, 2000	June 30, 2003	\$ 62.0 million
FY 2001	October 1, 2000	June 30, 2003	\$ 50.8 million
PY 2001	July 1, 2001	June 30, 2004	\$ 73.4 million
FY 2002	October 1, 2001	June 30, 2004	<u>\$ 56.6 million</u>
Total Awards			<u>\$261.8 million</u>

WIA funds are awarded on a PY basis, from July 1 to June 30, except for Youth grants that were available in 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. As required by WIA, the State of Ohio passed approximately 85 percent of its grant funds to Local Boards (subrecipients).

2. Identify and summarize the WIA funds obligated by the State and Local Boards as of December 31, 2001, and calculate the amount and percentage of unobligated balances.

Total obligations reported by Ohio as of December 31, 2001, were as follows:

Funding Period	Total Funds Awarded (in millions)	Total Obligations Per FSR (in millions)	Amount Unobligated Per FSR (in millions)	Percent of Funding Unobligated
PY 1999/8	\$ 19.0	\$ 19.0	\$ 0	0%
PY 2000	\$ 62.0	\$ 62.0	\$ 0	0%
FY 2001	\$ 50.8	\$ 50.8	\$ 0	0%
PY 2001	\$ 73.4	\$ 73.4	\$ 0	0%
FY 2002	<u>\$ 56.6</u>	<u>\$ 56.6</u>	<u>\$ 0</u>	0%
Total	<u>\$261.8</u>	<u>\$261.8</u>	<u>\$ 0</u>	0%

The information reported by the State reflects no unobligated balances for any of the WIA grants at December 31, 2001. This is due to the fact that the State did not report actual obligations incurred at the State or Local Board levels; rather, the State reported obligations equal to the total funds authorized by DOL.

As discussed in further detail at item 10 of this report, Local Boards began reporting obligation data to the State in March 2002. We summarized Local Board and State obligations as of March 31, 2002:

Funding Period	Total Funds Awarded (in millions)	Amount Obligated (in millions)	Amount Unobligated (in millions)	Percent of Funding Unobligated
PY 1999/8	\$ 19.0	\$ 18.0	\$ 1.0	5.0%
PY 2000	\$ 62.0	\$ 61.8	\$ 0.2	3.2%
FY 2001	\$ 50.8	\$ 38.2	\$ 12.6	24.8%
PY 2001	\$ 73.4	\$ 19.4	\$ 54.0	73.6%
FY 2002	<u>\$ 56.6</u>	<u>\$ 22.5</u>	<u>\$ 34.1</u>	60.2%
Total	<u>\$261.8</u>	<u>\$159.9</u>	<u>\$101.9</u>	38.9%

The March 31, 2002, data reflect that the State and Local Boards had obligated 61.1 percent of the total available WIA funding to date, leaving 38.9 percent unobligated. We found that the unobligated balance of State level funding was \$39.1 million or 71.3 percent of the total funds retained for State activities. The unobligated balance of local level funding was \$62.8 million or 30.3 percent of the total funds passed through to the Local Boards.

3. Identify and summarize the WIA grant expenditures reported by the State as of December 31, 2001, and calculate the amount and percentage of unspent funding.

Total WIA expenditures reported by Ohio through December 31, 2001, were as follows:

Funding Period	Total Funds Awarded (in millions)	Total Expenditures (in millions)	Amount Unspent (in millions)	Percent of Funding Unspent
PY 1999/8	\$ 19.0	\$ 17.6	\$ 1.4	7.4%
PY 2000	\$ 62.0	\$ 46.6	\$ 15.4	24.8%
FY 2001	\$ 50.8	\$ 29.1	\$ 21.7	42.7%
PY 2001	\$ 73.4	\$.0	\$ 73.4	100.0%
FY 2002	<u>\$ 56.6</u>	<u>\$.0</u>	<u>\$ 56.6</u>	100.0%
Total	<u>\$261.8</u>	<u>\$ 93.3</u>	<u>\$168.5</u>	64.4%

Of the \$261.8 million of total WIA funds awarded to Ohio, the State spent \$93.3 million, 35.6 percent of the total funds awarded, leaving a significant portion of its funding (64.4 percent) unspent as of December 31, 2001. The PY 2001 and FY 2002 funding years reflect that no funds have been spent as of December 31, 2001, even though several months have elapsed since the funds were awarded. We subsequently obtained cost information reported for the quarter ended March 31, 2002, and noted that 54 percent of the funds remained unspent as of that date.

4. Determine if the expenditure amounts reported to DOL agree to the State and two Local Board’s accounting records.

We compared the expenditure amounts reported to the DOL, and found that the amounts reported reconciled in all cases to the State’s grant costs system. We visited two Local Boards, and found that the amounts reported to the State reconciled to the Local Board’s accounting system.

5. Calculate the amount and percentage of unspent funding by program component.

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

Program Component	Funds Awarded (in millions)	Total Expenditures (in millions)	Amount Unspent (in millions)	Percent of Funding Unspent
<u>Local Board Activities:</u>				
Adults	\$ 74.3	\$ 31.5	\$ 42.8	57.6 %
Youth	\$ 74.6	\$ 24.4	\$ 50.2	67.4 %
Dislocated Worker	\$ 37.7	\$ 17.7	\$ 20.0	53.1 %
Local Admin	<u>\$ 20.7</u>	<u>\$ 7.8</u>	<u>\$ 12.9</u>	62.3 %
Total Local Board Activities	\$ 207.3	\$ 81.4	\$ 125.9	60.7 %
<u>State Activities:</u>				
State-Wide Activities	\$ 36.8	\$ 7.2	\$ 29.6	80.4 %
State Rapid Response	<u>\$ 17.7</u>	<u>\$ 4.7</u>	<u>\$ 13.0</u>	73.4 %
Total State Activities	\$ 54.5	\$ 11.9	\$ 42.6	78.2 %
Total Funding	<u>\$ 261.8</u>	<u>\$ 93.3</u>	<u>\$ 168.5</u>	64.4 %

The cost data submitted by the State through December 31, 2001, indicate that the majority of WIA funds at both the State and Local Board levels were not spent as of that date (78.2 percent and 60.7 percent, respectively).

6. Calculate the rate of expenditure for the State of Ohio's WIA program as of the quarter ended December 31, 2001.

From July 1, 2000 through December 31, 2001, the rate of expenditure for the WIA program has averaged approximately \$1.2 million per week. At that rate, the State had about 2 ½ years of available funding as of December 31, 2001.

The two Local Boards visited also had large unspent WIA fund balances. The WIA allocation for one Local Board was \$5.9 million, yet the Local Board had only spent \$2.5 million. In the other case, the Local Board's PY 2001 allocation was \$7.8 million, yet the Local Board had only spent \$.97 million.

We also obtained the FSRs for March 31, 2002. The reports showed that the State spent an additional \$26 million in this quarter, leaving an unspent balance of \$142 million, or 54 percent of the total funds awarded. This cost activity indicates an acceleration of WIA expenditures for the latest quarter. However, even at this rate of expenditure, it would take more than 1 year to spend the existing funds available, in which time the State would have received additional allocations (the PY 2002 youth funding is available April 2002, and the remaining PY 2002 funding will be available July 2002 and October 2002).

7. Identify potential reasons for the high percentage of unspent funds.

According to State officials, the high percentage of unspent funds was due to the slow implementation of the WIA program. The transition from JTPA to WIA took longer than anticipated due to a significant reorganization within the State of Ohio that brought in many counties as local service areas that had little or no prior experience with JTPA. Under JTPA, the State of Ohio was organized into 31 Private Industry Councils/Boards that provided JTPA services to assigned State Counties. Under WIA, the State reorganized and increased the number of service areas. Currently, there are 8 WIA local areas, of which one local area has 57 sub-areas.

Furthermore, we were informed that many potential participants for the WIA program were enrolled instead in Temporary Assistance for Needy Families (TANF) programs. According to State officials, the Local Boards were informed that if TANF funding was not fully utilized within a given time period, the unspent funds would have to be remitted back to the State. The State indicated that participants were enrolled into TANF rather than WIA programs, because there were fewer restrictions for participant eligibility and for the use of TANF funds.

8. Identify and summarize the total WIA payments received by the State of Ohio as of December 31, 2001, and calculate the resulting available cash.

The following provides a summary of the funds withdrawn from the HHS/PMS system as of December 31, 2001, and the resulting available cash:

Funding Period	Total Costs Reported (in millions)	Total Cash Withdrawn (in millions)	Cash Available (in millions)
PY 1999/8	\$ 17.6	\$ 9.3	\$ (8.3)
PY 2000	\$ 46.6	\$ 61.2	\$ 14.6
FY 2001	\$ 29.1	\$ 36.8	\$ 7.7
PY 2001	\$.0	\$ 15.3	\$ 15.3
FY 2002	\$.0	\$.0	\$.0
Total	<u>\$ 93.3</u>	<u>\$ 122.6</u>	<u>\$ 29.3</u>

9. Determine if the amount of cash withdrawn by the State and Local Boards for the WIA program is reasonable based on the actual rate of expenditures, and that the resulting available cash is in compliance with the applicable regulations.

The \$29.3 million of available cash identified above represents cash drawn down in excess of costs incurred, as of December 31, 2001. Since the State averaged approximately \$5.2 million of grant expenditures per month (from July 2000 through December 2001), the available cash represents approximately 6 months of cash needs.

During the subsequent quarter (March 31, 2002), the State of Ohio received additional cash of \$15 million and reported expenditures of \$26 million, reducing the available cash to \$18 million. However, additional funds totaling \$10 million were drawn down in April and the first week of May 2002 against FY 2002 grants, even though no corresponding costs were reported for FY 2002, as of March 31, 2002.

The cash management regulations applicable to the WIA program require that cash advances 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 (31 CFR 205.20). Based on this criterion, the State of Ohio's available cash for the WIA program is excessive.

Our review of the State's single audit reports indicated that since 1998, Ohio's auditors have reported that the State did not establish appropriate internal control procedures over cash management for the JTPA, and subsequently, the WIA program.

We visited two Local Boards, and noted that Local Boards also had excessive available cash. Each Local Board we visited had over \$2 million in available cash. One Local Board received cash advances of \$4.7 million, but had only spent \$2.5 million of its annual allocation (for the year ended June 30, 2001). The other Local Board received \$3.3 million in cash advances from the State, but had only spent \$970,000.

The excessive available cash at the Local Boards were due to the State's cash advance policies. We were informed that the State provided cash advances to the Local Boards equal to one-third of their total subgrant awards. According to State officials, the current advance system is being replaced with procedures that will satisfy cash management requirements applicable to WIA. We were informed the new procedures would be implemented in July 2002.

10. Determine how the State reports obligations for Local Board activities (i.e., Adult, Dislocated Workers, Youth and Local Administration), and if the method used for reporting to the DOL is in compliance with instructions issued by ETA.

The obligation amounts reported by Ohio for all Local Board activities represented the total amount of funds passed through to the Local Boards.

This reporting practice was contrary to information provided by OGCM, who informed us that the states were instructed (in training) to report actual Local Board obligations, not the amount of funds passed through to the Local Boards. However, State officials believed obligations were reported in accordance with ETA instructions, claiming that they were instructed by their ETA regional monitor to report obligations equal to the total amount passed through to the Local Boards. We contacted the ETA monitor and verified that the State was, in fact, given these instructions.

We also looked to the written reporting instructions issued by ETA. The written instructions do not specify whether or not the Local Board obligations or the State's pass through awards should be included on these reports. As an example, the Youth reporting instructions define obligations as the sum of net outlays (i.e. expenditures) plus unliquidated obligations, which are defined as follows:

Item 10. i. FEDERAL UNLIQUIDATED OBLIGATIONS are obligations incurred, but for which an outlay (expenditure) has not yet been recorded in the grantee's books of account. This amount should include unliquidated obligations to subgrantees and contractors. (State has 90 days after all funds have been expended or the period of availability has expired to liquidate funds that were obligated during the period of performance.) [Training and Employment Guidance Letter No. 16-99, June 23, 2000, Attachment D.]

According to State officials, beginning in March 2002, ETA requested that the State include the unliquidated portion of Local Board obligations on the quarterly FSRs, but only as footnoted information. The amount reported as "Total Federal Obligations" on the FSRs remained the same. That is, it includes the total amount passed through to the Local Boards.

11. Determine if expenditure information is reported to ETA on the accrual basis of accounting, in accordance with the regulations at 29 CFR Part 97 and the WIA reporting instructions issued by ETA.

WIA grantees are required to report accrued expenditures to ETA on a quarterly basis. However, neither the State nor the Local Boards consistently reported program expenditures utilizing the accrual basis of accounting. The State made attempts at estimating certain accruals, but the process was not all-inclusive. Program expenditures were typically reported on a cash basis. Cash-basis reporting is contrary to program regulations at 20 CFR 667.300, which require reporting of accrued expenditures.

In March 2002, the State instructed the Local Boards to include accrual information as part of the reporting process. However, the State does not believe that the accruals reported (approximately \$8 million) represented all accrued expenditures for the WIA program. The State believed that additional refinements were necessary at the Local Boards to attain complete and accurate accounting of accrued expenditures.

12. Determine what information is required to be reported by the Local Boards to the State, and if the reporting requirements established by the State ensure compliance with the program regulations at 20 CFR 667.300.

Prior to March 2002, Local Boards were required to report cost and payment information to the State using the Quarterly Information Consolidated System (QUIC), an online reporting system. This information was transmitted to the State's Central Office Reporting System where it was consolidated for reporting to the DOL. Contrary to the WIA program regulations at 20 CFR 667.300, cost information was reported on a cash rather than accrual basis. The Local Boards did not report obligations to the State.

In March 2002, the State revised Local Board reporting requirements and instructed the Boards to report obligations (only the unspent portion) and accruals for costs incurred but not yet processed for payment. The accrual information was added to the cash-basis expenditures reported in the QUIC system, and was included in the "Total Federal Outlays" line of the FSRs. However, the Local Boards' obligations data were included as a footnote only. The State contends that it had not been instructed by ETA to report the Local Boards' obligations in the "Total Federal Obligations" line of the FSRs.

- 13. Determine how the State tracks the various funding periods for both State activities and Local Board activities, and if data is accounted for in a manner that will allow costs to be matched against the appropriate obligation.**

Ohio has not tracked its WIA grants by funding period. The accounting and reporting system used for both the State and Local funds was not structured to identify costs incurred against a specific obligation. Rather, costs were recorded against the oldest available obligation. The subawards passed through to the Local Boards did not identify the funding period (PY or FY) under which the award was authorized. Likewise, the reporting to the State by the Local Boards did not identify the source of the funds spent during the reporting period.

State officials indicated that Ohio recently initiated efforts to record costs incurred against the corresponding obligation, including requirements for the Local Boards to track and report expenditures by funding period. Implementation of these changes was expected to take place by July 2002.

- 14. Determine the documentation used by the State to award the pass through allocations to the Local Boards. Based on the information obtained, determine if the State subaward document is in compliance with the requirements of the uniform grant administration procedures outlined at 29 CFR 97.37.**

Local Boards were notified of their funding allotments by means of a notification letter. A formally executed subgrant agreement was not used to document awards of WIA funds. The notification letters did not contain any of the information outlined in 29 CFR 97.37. For example, this regulation requires that “every subgrant include clauses required by Federal statute and executive orders and their implementing regulations,” and that every cost reimbursement subgrant include a provision for compliance with 29 CFR 97.42, which sets forth the retention and access requirements for financial and programmatic records relative to the Federal grant or subgrant.

- 15. Inquire as to the source of obligation, expenditure and/or payment information reported to the State by the Local Boards, and determine if the information reported agrees with the corresponding source accounting records.**

Expenditure and payment information was reported to the State using the QUIC system, and was derived directly from the Local Boards’ financial accounting systems. We traced expenditure and payment information reported in the QUIC to corresponding information recorded in the Local Boards’ financial accounting systems. We did not find any exceptions in data between the two systems.

Obligation information was not reported to the State until March 2002. Reported obligations as of that date were supported by manual spreadsheets maintained by the Local Boards.

- 16. Determine if Local Board cost information is reported on the accrual basis of accounting, in accordance with the regulations at 29 CFR Part 97 and the WIA**

reporting instructions issued by ETA.

The Local Boards did not maintain accounting records on an accrual basis, and prior to March 2002, were not required to report accrued expenditures. However, beginning in March 2002, the State required Local Boards to report accrual information, in addition to the cash expenditures reported on the QUIC system.

- 17. If obligation information is not required to be reported to the State, determine if the Local Board has accounted for their obligations in the official accounting system or in "cuff" records.**

Neither of the Local Boards visited accounted for obligations as part of their standard accounting and reporting systems. Records available at the Local Boards consisted of spreadsheets that listed subcontracts and purchase orders awarded to training agencies and other vendors.

- 18. Determine how the Local Board defines "obligation," and the point at which funds are considered to be obligated. Determine if the Local Board definition meets the criteria defined in the program regulations at 20 CFR 660.300.**

Beginning in March 2002, the Local Boards began reporting unliquidated obligations to the State. Included in this amount was the unexpended portion of training subcontracts and purchase orders to certain vendors. Unliquidated obligations did not include payroll costs or recurring operating costs, such as utilities or repairs (these items are normally obligated at the time the expenditure is incurred). However, since the Local Boards reported cash-basis expenditures, accrued expenditures, and unliquidated obligations, it is possible to compute the total WIA obligations as defined in the program regulations. We believe that these practices are properly designed to provide obligation information that is substantially compliant with the regulations, beginning with the quarter ended March 31, 2002.

- 19. If feasible (based on the records maintained by the Board), determine the percentage of total funding which has been obligated for either core, intensive, or training services which will be provided by one-stop centers or other outside training entities.**

For the two Local Boards visited, the obligations recorded (off ledger), as of March 2002, amounted to 49 percent of the total WIA funds awarded. These obligations were primarily made to outside training agencies or service providers.

- 20. Inspect copies of the types of contracts issued for training services. Determine if the subcontracts for training services issued by the Local Board contain the required information and clauses as specified in the grant administration requirements at 29 CFR Part 97.**

We obtained two training subcontracts issued by each of the Local Boards visited, and found the subcontracts to be substantially compliant with the uniform grant administration requirements of 29 CFR, Part 97.

The subcontracts reviewed were formal contractual agreements which referred to the requirements and regulations applicable to WIA operations, and set forth the essential contract terms and conditions.

- 21. Determine what information is required to be reported by the training subcontractors to the Local Boards, including the content, format, frequency and any written instructions issued by the Local Board. Based on the information obtained, determine if the Local reporting requirements are in compliance with the program regulations at 20 CFR 667.300.**

Both of the Local Boards visited required training subcontractors to submit monthly reports containing both financial and program (participant) information. Examples of information reported include: expenditures by category, names of participants served, type of service provided, current status of participant, and outcomes achieved. Accordingly, the reporting requirements imposed on subcontractors by the Local Boards were considered to be substantially compliant with the program regulations.

- 22. Determine how the Local Board tracks the various funding periods, and if data is reported and accounted for in a manner which will allow costs to be matched against the appropriate obligation or subcontract agreement.**

The State did not provide Local Boards with sufficient information to determine whether funding was of fiscal or program year origin. Therefore, the accounting and reporting of WIA financial data by the Local Boards did not include identification of activities by funding period. Local Boards' expenditure data were reported against an annual allotment; however, at the State level, the data were recorded against the earliest appropriation with available funding. Costs were not matched against corresponding obligations.

According to State officials, Local Boards will be required to report program costs by the appropriate fiscal or program year, beginning in July 2002.

EXHIBIT I

**FINANCIAL STATUS REPORT
LOCAL YOUTH PROGRAM ACTIVITIES**

Following this title page is the WIA financial status report used to record local youth program activities.



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
 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. Outlays for Out-of-School Youth

d. Outlays for In-School Youth

e. Outlays for summer employment opportunities

f. Net Federal outlays (Line a minus b)

g. Recipient outlays for allowable program activities

h. Net Federal outlays

i. Federal share of unliquidated obligations

j. Total Federal obligations (Line h plus i)

k. Total Federal funds authorized for this funding period

l. Unobligated balance of Federal funds (line k minus j)

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

**FINANCIAL STATUS REPORT
LOCAL ADULT PROGRAM ACTIVITIES**

Following this title page is the WIA financial status report used to record local adult program activities.



Financial Status Report

OMB Approval
No. 1205-0408

Page of

Expires:
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pages

1. Federal Agency and Organizational Element
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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 Welfare-to-Work, Room N-4716, Washington, D.C. 20210 (Paperwork Reduction Project (1205-0408)).

EXHIBIT III

**FINANCIAL STATUS REPORT
LOCAL DISLOCATED WORKER PROGRAM ACTIVITIES**

Following this title page is the WIA financial status report used to record local dislocated worker program activities.



Financial Status Report

OMB Approval
No. 1205-0408

Page of

Expires:
02/29/04

pages

1. Federal Agency and Organizational Element to Which Report is Submitted	2. Federal Grant or Other Identifying Number Assigned By Federal Agency
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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 share of unliquidated obligations	
g. Total Federal obligations (Line e plus f)	
h. Total Federal funds authorized for this funding period	
i. Transfers from adult program activities	
j. Transfers to adult 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 IV

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

Following this title page is the complete text of Ohio's response to our agreed-upon procedures report, issued to them on August 15, 2002.

Bob Taft
Governor



Tom Hayes
Director

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INSPECTOR GENERAL
OFFICE OF AUDIT
ATLANTA, GA

September 9, 2002

Mr. 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

Re: Report Number 04-02-004-03-390

Dear Mr. Wallace:

We have reviewed the report prepared by R. Navarro and Associates, Inc., on behalf of the Office of Inspector General (OIG), regarding Workforce Investment Act grants and transition funds awarded to the State of Ohio, for the period July 1, 2000, through December 31, 2001. We are in general agreement with the report; however, there are several areas that we believe require additional clarification. Those areas are discussed and are submitted for edification and inclusion into your report. They are as follows:

The period of this report is July 1, 2000, to December 31, 2001, as identified on the cover page of the report and in Paragraph 1 under the Independent Accountants' Report on Applying Agreed-Upon Procedures. However, there are references throughout the report that go beyond December 31, 2001. This is confusing to the reader and appears that the scope has been exceeded. I would suggest that the report clarifies that the scope is primarily tied to the funding source, and that activity related to this source was examined.

Page 4, paragraph 2---The report states that the State reorganized into 85 service areas. This is incorrect. That same comment is repeated throughout the report and should be corrected (i.e., Page 8, #7, paragraph 1). Currently, Ohio has 8 Local Areas. However, one of those areas known as the Option Area (OA) currently has 57 sub-areas. During the transition from JTPA to WIA for the period July 1, 2000, through June 30, 2001, Ohio had seven local Workforce Investment Areas. The area known as the Option Area had 45 sub-areas.

Page 4, paragraph 2---The last sentence in this paragraph is an opinion, unsupported by fact, and is contrary to the Independent Accountant's Report on Applying Agreed-Upon Procedures (i.e., paragraph 5) and should be removed from the report.

Page 4, paragraph 4, has a date of December 31, 2002. This date appears to be in error and should be changed to December 31, 2001, to reflect the scope period of the examination.

Page 6, first table---This table summarizes Local Board and State obligations as of March 31, 2002. The state calculated these figures using the information in the Financial Status Reports (FSR) footnotes as documentation of the obligated commitment, and included the footnoted amount when Option Area (OA)

R. Wallace
Report No. 04-02-004-03-390
September 9, 2002
Page 2

was available, or the footnoted amount up to a maximum of the OA amount available for each funding year. Under this methodology, the state's calculations of the amount obligated differ in several places from the draft figures. For PY 2000, the report shows \$62.1 M; the state's calculation is \$61.8 M. Also, the reported amount includes \$1.7 M more in FY 2001, and \$1.7 M less in PY 2002, than the state calculated.

The state attempted to verify the calculations with R. Navarro & Associates over the past few days, but the proper state and Navarro contacts have not yet taken place. While there are not significantly large differences between the state's and Navarro's calculations, it would be best to clarify the methodology for the calculations in the table.

Page 8, #7, paragraph 2--- Sentence 2 states, "According to State officials, they were informed that if TANF funding was not fully utilized within a given period, the unspent funds would have to be remitted back to the funding source." This statement should be rewritten to say, "According to State officials, the local areas (counties) were informed that if TANF funding was not fully utilized within a given period, the unspent funds would have to be remitted back to the State (ODJFS). The local areas used TANF funding instead of WIA funding because there were fewer restrictions on the eligibility of participants and use of TANF funds."

We look forward to receiving your final report. If you have any questions or wish further information, please contact Arthur D. Stackhouse, Office of the Chief Inspector, at (614) 466-3015.

Sincerely,



Kenneth B. Marshall
Chief Inspector
Office of the Chief Inspector

KBM:ADS:plq

Enclosure

cc: Thomas Hayes
Melissa DeLisio
Robert Blair
China Widener
Donald Singer
Quentin Potter
Mark Birnbrich
Arthur Stackhouse