

**COMMONWEALTH OF PUERTO RICO**

**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.

*Elliott P. Lewis*  
Assistant Inspector General for Audit  
U. S. Department of Labor

**Report No: 04-03-010-03-390  
Date Issued: March 28, 2003**

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

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## ***ACRONYMS***

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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
OIG	Office of the Inspector General
PRHRODC	Puerto Rico Human Resources and Occupational Development Council
PY	Program Year
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 Commonwealth of Puerto Rico'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. In certain instances, we obtained obligation information subsequently reported by the Commonwealth and Local Areas for the March 31, 2002 reporting period.

The Puerto Rico Human Resources and Occupational Development Council 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 Commonwealth 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.*

September 20, 2002

## **SUMMARY OF RESULTS**

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We obtained and summarized WIA funds obligated and expended by the Commonwealth of Puerto Rico as of December 31, 2001 as well as funds obligated as of March 31, 2002. Amounts reported to ETA on Financial Status Reports (FSRs) were supported by source accounting records at the Commonwealth. However, amounts reported by two of the three Local Areas we visited were not supported by source accounting records.

Procedures were established for recording expenditures on the accrual basis of accounting in accordance with Federal regulations. However, we determined that Local Areas did not universally observe established procedures.

As of December 31, 2001 the Commonwealth had expended \$205.4 million (36.8 percent) of the \$558.2 million awarded, leaving \$352.8 million (63.2 percent) unexpended. At this rate of spending, it would take over two and a half years to spend the remaining funds, during which time the Commonwealth would receive additional WIA allocations.

The Commonwealth and Local Areas employ First-In-First-Out (FIFO) methodology in charging expenditures rather than matching Program Year (PY) costs with the appropriate funding for the period. As a result, there is no means by which to assess a particular period's performance due to this dissociation of current period expenditures with current funding.

The reporting process at the Commonwealth level did not allow an accurate appraisal of the performance within each funding stream due to inconsistent methodology in accounting for and reporting obligations. Obligations reported on FSRs include actual obligations for Statewide Activities and Rapid Response. However, the portion of obligations reported on the FSRs attributable to Local activities included obligated amounts for only a portion of the Local Areas in Puerto Rico.

The majority of the Local Areas reported only expenditure information to the Commonwealth, which was combined with obligations reported by the other Local Areas and then reported as obligations on FSRs. Reporting obligations in this manner did not afford the ability to assess performance within each funding stream. Beginning with the quarter ending March 31, 2002, all Local Areas in Puerto Rico began reporting unliquidated obligations to the Commonwealth.

## **Commonwealth of Puerto Rico's Response**

The Commonwealth of Puerto Rico provided a written response to our draft report, which is included in its entirety at Exhibit II. The Commonwealth provided additional comments through their written response and through discussions with us subsequent to their written response. Puerto Rico stated that charging expenditures to WIA grants on a FIFO basis is not prohibited under WIA law. Puerto Rico also stated that for some Local Areas, the amounts reported as obligations equaled the amounts of reported expenditures on the FSRs because the Commonwealth does not allow the expenditure of funding until a legal liability exists for the funding. As a result, according to Commonwealth officials, the reporting of expenditures takes place simultaneously with and in amounts equal to the reporting of obligations. Additionally, Puerto Rico believed that their Local Areas consistently reported obligation and expenditure information to the Commonwealth.

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

Based on the results of the procedures we performed, the manner in which the Commonwealth reported obligations reflected the amounts for which a legal liability existed to the entities that provided services under WIA. We did not indicate that Puerto Rico was not in compliance with WIA requirements for reporting obligations.

While we did determine that some Local Areas reported obligation information to the Commonwealth while others reported only accumulated expenditures, our procedures were not designed to determine how adequate the consistency of reporting among the Local Areas to the Commonwealth.

## ***BACKGROUND, SCOPE AND METHODOLOGY***

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### **Background**

WIA, enacted in 1998, was designed to reform prior Federal job training programs and create a new comprehensive workforce investment system. This 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 JTPA and amended the Wagner-Peyser Act.

Initial grants for the WIA program were awarded by DOL, ETA, beginning in 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 two-year period must be returned to the State.

States are required to report WIA activities on quarterly Financial Status Reports (FSR's). 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 obligation exists at the State level. Likewise, states have 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 encompass WIA funds awarded to the Commonwealth of Puerto Rico for PY 2000, FY 2001, PY 2001and 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 Commonwealth and three Local Areas (Al Sureste, Consorcio del Noreste and Municipio De San Juan) from July 1, 2000 through December 31, 2001. For procedure number 7, we obtained information reported by the Commonwealth for the March 31, 2002 reporting period.

In general, our procedures were designed to summarize the Commonwealth of Puerto Rico'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 the Commonwealth and Local Areas 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 269s. 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 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.**

Local Areas report to the Commonwealth using “Information of Accumulated Expenditures and the Petition of Funds” reports that are comparable to the FSRs used to report obligations to the DOL. The reports are required to be submitted to the Commonwealth by the 15<sup>th</sup> day of each month following the month being reported.

Obligations reported on FSRs were compiled from Local Area monthly reports. We found that the Local Areas inconsistently reported data on the monthly reports. Some Local Areas reported obligations to the Commonwealth, while others reported only accumulated expenditures. These amounts were consolidated and reported on Federal FSRs as obligations.

The majority of the amounts reported as obligations were, in fact, expenditures at the Local Area level rather than actual obligations. However, for Statewide Activities and Rapid Response, the amounts reported as “obligations” were actual obligations at the State level. Therefore, the Commonwealth did not report obligations as defined at 20 CFR 660.300 which would include all funds allocated to the Local Board.

Starting in the first quarter of 2002, all Local Areas began reporting unliquidated obligations and expenditures. These two amounts were consolidated and reported on Federal FSRs as obligations.

**2. 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.**

Based on discussions with representatives of PRHRODC as well as examination of financial records at the Commonwealth and Local Area levels, we determined that PRHRODC does not match costs with the appropriate fiscal period's funding. Rather, current expenditures are charged against the oldest available funding.

Expenditure information reported to the Commonwealth by the Local Areas was identified by funding period. However, reported expenditures were charged to the earliest year that funding remained available, rather than the period 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 cost 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, expenditures are reported monthly by Local Areas to the Commonwealth. These amounts then roll up into the Federal FSR as "Outlays".

We reviewed the reporting instructions provided by PRHRODC to the Local Areas and determined that the amounts reported as "accrued expenditures" are required to include costs that have been incurred but for which payment has not been made by Local Areas. Additionally, representatives of PRHRODC stated that Local Areas were instructed to include in "accrued expenditures" both payments for goods and services as well as amounts for goods and services which had been received but for which a payment had not been made at the end of a month. This manner of reporting is consistent with the accrual basis of accounting as required by 29 CFR 97 and the instructions at 20 CFR 667.300.

PRHRODC officials believed their instructions were being adhered to regarding accruals. Local Area representatives at two of the three Local Areas visited maintained that reported expenditures included accruals. However, the third, Noreste, employs cash-basis accounting for the entire year but makes adjustments at year-end to be reflective of accruals.

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

Our review of PRHRODC's "Financial Guide - Instructions & Forms" and our discussions with PRHRODC officials revealed that the Local Areas are required to report total Federal funds available (reported as "Annual Program"), accrued expenditures (in accordance with 29 CFR 97 and 20 CFR 667.300), the unliquidated portion of obligations and projected future expenditures. However, as mentioned at item number 1 of this report, there was no consistency in the information that was reported to the Commonwealth by the Local Areas.

- 5. Obtain or prepare from documents supporting the FSR 269s, a summary of the FSRs from the Local Boards and analyze this information to select the Local Boards to visit.**

We summarized the obligation and expenditure information included in the "Analysis of Accumulated Expenditures" prepared by PRHRODC. Utilizing this information, we made a judgmental selection of three Local Area offices in which to conduct fieldwork. The Local Areas selected for site visits were Al Sureste, Consorcio del Noreste, and Municipio De San Juan.

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

We examined the FSRs reported by PRHRODC to the DOL, and compared them to the corresponding data compiled at ETA. The information on the FSRs agreed to 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 funding stream, for each PY and FY. This 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 table below shows the total WIA funds awarded by the DOL to the Commonwealth of Puerto Rico since inception of the WIA program:

<b>Funding Period</b>	<b>Beginning of Spending Period</b>	<b>Expiration of Spending Period</b>	<b>Total WIA Funds Awarded</b>
PY 1998	JTPA transition	June 30, 2001	\$ 6,941,880
PY 1999	JTPA transition	June 30, 2002	\$ 74,125,179
PY 2000	July 1, 2000	June 30, 2003	\$ 103,556,317
FY 2001	October 1, 2000	June 30, 2003	\$ 111,940,938
PY 2001	July 1, 2001	June 30, 2004	\$ 127,874,454
FY 2002	October 1, 2001	June 30, 2004	\$ 150,263,645
<u>Less:</u>	Rescission of PY 2001 funds		(\$ 16,523,469)
	<b>Total Awards</b>		<b>\$ 558,178,944</b>

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 PY 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 the Commonwealth 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	\$ 6.94	\$ 6.92	\$ 0.02	0.3 %
PY 1999	\$ 74.1	\$ 46.4	\$ 27.8	37.5 %
PY 2000	\$ 103.6	\$ 90.9	\$ 12.6	12.2 %
FY 2001	\$ 111.9	\$ 46.7	\$ 65.3	58.4 %
PY 2001	\$ 127.9	\$ 82.2	\$ 45.7	35.7 %
FY 2002	\$ 150.3	\$ 32.5	\$ 117.7	78.3 %
Less: PY 2001 Rescission	(\$ 16.5)	N/A	(\$ 16.5)	N/A
<b>Total</b>	<b>\$ 558.2</b>	<b>\$ 305.6</b>	<b>\$ 252.6</b>	<b>45.3 %</b>

*Note: Information in the above table was obtained from quarterly Financial Status Reports prepared by PRHRODC 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 total \$558.2 million available, \$305.6 million (54.7 percent) had been reported as obligated. The remaining \$252.6 million (45.3 percent) was unobligated as of December 31, 2001.

## **7. (Continued)**

### **WIA Funds Obligated – Continued**

As discussed in further detail at item 1 of this report, all Local Areas in Puerto Rico began reporting obligation data to the Commonwealth in the first quarter of 2002. In response to a request by DOL-OIG, we obtained obligation data that includes only total amounts for which a legal liability exists. This information was obtained for the quarter ended March 31, 2002.

<b>Funding Period</b>	<b>Total Funds Awarded (in millions)</b>	<b>Total WIA Funds Obligated (in millions)</b>	<b>Amount Unobligated (in millions)</b>	<b>Percent of Funding Unobligated</b>
PY 1998	\$ 6.94	\$ 6.92	\$ 0.02	0.3 %
PY 1999	\$ 74.1	\$ 47.1	\$ 27.1	36.6 %
PY 2000	\$ 103.6	\$ 94.2	\$ 9.4	9.1 %
FY 2001	\$ 111.9	\$ 59.6	\$ 52.4	46.8 %
PY 2001	\$ 127.9	\$ 92.8	\$ 35.1	27.4 %
FY 2002	\$ 150.3	\$ 55.8	\$ 94.4	62.8 %
Less: PY 2001 Rescission	(\$ 16.5)	N/A	(\$ 16.5)	N/A
<b>Total</b>	<b>\$ 558.2</b>	<b>\$ 356.4</b>	<b>\$ 201.8</b>	<b>36.2 %</b>

*Note: Information in the above table was obtained from quarterly Financial Status Reports prepared by PRHRODC 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 the total due to rounding differences*

There was no marked increase (\$50.8 million) in total obligations for the quarter ended March 31, 2002. For the prior six quarters ended December 31, 2001, reported obligations averaged \$50.9 million each quarter.

## **7. (Continued)**

### **Total Federal Expenditures**

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

<b>Funding Period</b>	<b>Total Funds Awarded (in millions)</b>	<b>Total Expenditures (in millions)</b>	<b>Amount Unexpended (in millions)</b>	<b>% of Funding Unexpended</b>
PY 1998	\$ 6.94	\$ 6.92	\$ 0.02	0.3 %
PY 1999	\$ 74.1	\$ 20.7	\$ 53.4	72.1 %
PY 2000	\$ 103.6	\$ 77.7	\$ 25.9	25.0 %
FY 2001	\$ 111.9	\$ 35.3	\$ 76.6	68.5 %
PY 2001	\$ 127.9	\$ 58.2	\$ 69.7	54.5 %
FY 2002	\$ 150.3	\$ 6.7	\$ 143.6	95.5 %
Less: PY 2001 Rescission	(\$ 16.5)	N/A	(\$ 16.5)	N/A
<b>Total</b>	<b>\$ 558.2</b>	<b>\$ 205.4</b>	<b>\$ 352.8</b>	<b>63.2%</b>

*Note: Information in the above table was obtained from quarterly Financial Status Reports prepared by PRHRODC 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 \$558.2 million WIA funds awarded to Puerto Rico, the Commonwealth spent \$205.4 million (36.8 percent), leaving the majority of their funding, \$352.8 million (63.2 percent) unexpended as of December 31, 2001.

**7. (Continued)**

**Expenditure Analysis by Funding Stream**

Unexpended funding by program component as of December 31, 2001 was:

<b>Program Component</b>	<b>Amount Awarded (in millions)</b>	<b>Amount Unexpended (in millions)</b>	<b>Percent of Funding Unexpended</b>
<u>Local Area Activities:</u>			
Adults	\$ 102.0	\$ 48.0	47.1 %
Dislocated Worker	\$ 166.7	\$ 112.1	67.2 %
Local Admin	\$ 37.2	\$ 15.7	42.2 %
Youth	\$ 89.4	\$ 27.2	30.4 %
Total Local Area Activities	\$ 395.3	\$ 203.0	51.4%
<u>Commonwealth Activities:</u>			
State-wide Activities	\$ 90.1	\$ 78.6	87.2 %
State-wide Rapid Response	\$ 89.4	\$ 87.7	98.1 %
Total State Activities	\$ 179.4	\$ 166.3	92.7 %
Less: PY 2001 Rescission	(\$ 16.5)	(\$ 16.5)	N/A
<b>Total Funding</b>	<b>\$ 558.2</b>	<b>\$ 352.8</b>	<b>63.2 %</b>

*Note: Information in the above table was obtained from quarterly Financial Status Reports prepared by PRHRODC 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.*

As of December 31, 2001, the majority of WIA funds at both the Commonwealth and Local Area levels were not spent (92.7 percent and 51.4 percent, respectively).

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

Through discussions with Local Area personnel, we determined that expenditure information, as well as the funding availability and, in some cases, obligation information was reported to the Commonwealth using the “Information of Accumulated Expenditures and the Petition of Funds” report.

We obtained copies of these reports at the Commonwealth level as well as the Local Area level during our visits to sites. PY and FY data was not reported separately on the monthly reports. Instead, the two funding periods were combined and reported as “Año Programa” (Program Year) activity. PY and FY funding was bundled at the Commonwealth level before being allocated to the Local Areas. Expenditures reported to the Commonwealth by the Local Areas were charged against respective PY and FY allocations on a First-In-First-Out (FIFO) basis. This was the means by which the Commonwealth segregated the PY and FY expenditures for reporting purposes on FSRs.

In conjunction with the monthly reports, we reviewed source accounting records at three Local Areas we visited in order to determine if they agreed to the information reported to the Commonwealth. Of the three, only one Local Area, Sureste, provided financial records which supported the amounts reported to the Commonwealth. For both the San Juan and Noreste Local Areas, the source accounting records obtained did not support the amounts reported to the Commonwealth as of March 31, 2002. Representatives of the latter two Local Areas were unable to provide explanations as to why their financial records did not support the reported amounts.

- 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 costs to be matched against the appropriate obligation or subcontract agreement.**

As mentioned in item number 8 of this report, total funding available for a Local Area’s program year is a combination of PY and FY allocations. Therefore, expenditures could not be matched with appropriate PY or FY allocations at the local level. Also, the Local Areas employed FIFO methodology in matching period expenditures with funding sources. This methodology did not allow for matching of a particular period’s expenditures with funding allotted to that period. As such, expenditures reported by the Local Board are not matched with the funding applicable to the period in which they were obligated, rather they are first

matched against prior period remaining funds until these funds have been exhausted and then matched against subsequent periods' funding.

For instance, any amount of PY 2000 funding that remained after PY 2000 had lapsed would be used to satisfy subsequent periods' expenditures until all of PY 2000 funding was exhausted. Subsequently, PY 2001 funding would have been utilized to satisfy the period's expenditures. Matching a period's expenditures against prior period funding in this manner dissociates the funding allotted to a specific period from the actual cost 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 and for which a legal liability exists.**

Officials of two of the three Local Areas we visited maintained that the "obligation" of funds coincides with the decision by the Local Area to authorize funding for a particular entity/contractor to provide services under WIA. The third Local Area, San Juan, obligated funds on a per-participant basis. San Juan obligated funds when they contracted with a service provider to provide services to a particular individual. Both definitions include only anticipated expenditures to meet bona fide needs for which a legal liability exists.

However, as mentioned at item 9 of this report, there is no appropriate matching of funding year and program year cost due to the Commonwealth and Local Areas' use of FIFO methodology.

**EXHIBIT I**

**SAMPLE FINANCIAL STATUS REPORT**

Following this 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
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	
<p>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 estimated 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).</p>			

ETA 9076-E (May 2000)

**EXHIBIT II**

**THE COMPLETE TEXT OF  
PUERTO RICO'S REONSE TO THE DRAFT  
AGREED-UPON PROCEDURES REPORT**

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

Commonwealth of Puerto Rico

Department of Labor and Human Resources



## Human Resources and Occupational Development Council

Xavier González Calderón  
Executive Director

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:

The enclose schedule contains the Puerto Rico Human Resources and Occupational Development Council's (PRHRODC) comments to the draft report of the evaluation of the Commonwealth of Puerto Rico's obligation and expenditure activities for available Job Training Partnership Act (JTPA) balances and Workforce Investment Act (WIA) funds (reference number 04-03-010-03-390) performed by the firm Harper, Rains, Stokes & Knight.

As describe on our comments to the draft report, certain sections of the report should be revised to address the clarifications presented by the PRHRODC in the enclosed schedule.

We would like the opportunity to have a conference call with your representatives to clarify the information included on the report as findings and discuss our response.

If you have any questions concerning this letter or the attach schedule, please contact Joe Alvarez Nazario, Deputy Director, at (787)754-5504.

Sincerely,

Xavier González Calderón  
Executive Director

Enclosure

BankTrust Plaza, Suite 200, 255 Ponce De León Ave., San Juan, PR 00917  
P.O. Box 192159 San Juan, PR 00919-2159 • Tel. (787) 754-5504 / Fax (787) 763-0195



### Schedule of Comments

Evaluation Commonwealth of Puerto Rico's obligation and expenditure activities for available  
Job Training Partnership Act (JTPA) balances and Workforce Investment Act (WIA) funds  
(Report No. 04-03-010-03-390)

#### Procedure 1:

- a. Finding: We found that the Local areas inconsistently reported data on the monthly reports. Some local Areas reported obligations to the Commonwealth, while others reported only accumulated expenditures. These amounts were consolidated and reported on Federal FSRs as obligations.

Comment: For the period ended December 31, 2001, only four (4) local areas did not report unliquidated obligations as required by PRHRODC on monthly reports. The use of the term "inconsistently" applied to all local areas does not reflect the correct condition at that date, which was limited to four Local Areas.

As noted on the draft report, the Local Areas which did not report unliquidated obligations on December started reporting this item during the quarter ended March 31, 2002, this was the result of follow-up by the PRHRODC to assure compliance with the federal reporting requirements.

- b. Finding: The majority of the amounts reported as obligations were, in fact, expenditures at the Local Area level rather than actual obligations. However, for Statewide Activities and Rapid Response, the amounts reported as "obligations" were actual obligations at the State level. Therefore, the Commonwealth did not report obligations as defined at 20 CFR 660.300 which would include all funds allocated to Local Boards.

Comment: The obligations total of the WIA FSR includes both Outlays (accrued expenditures) and unliquidated obligations. The expenditure amount is an integral part of the total obligations reported for a given period. We considered that the finding statement should be modified to reflect this fact; because it gives the impression that the reported expenditures are not obligations, which is incorrect. The Commonwealth reporting procedures and report information are design to comply with USDOL requirements.

As stated on page 3 of the draft report, USDOL provided instructions to the Commonwealth to report as unliquidated obligations for local area activities (Local Administration, Adult Program, Youth Program and Dislocated Workers) only the aggregate of the unliquidated obligations at the local level. This leaves out of the report the actual amount obligated at the State level for these activities which equals the statutory 85% for adults and youth programs and at least 60% for the dislocated workers program. Statewide Activities includes the actual obligations for all activities



as noted on the report due to the fact that the USDOL instructions for these activities required such reporting. Both of these instructions were officially disclosed by USDOL on November 6, 2002 by the issuance of the TEGL No. 16-99, change 1. Therefore, the Commonwealth complies with the USDOL instructions to prepare the FSR.

Procedure 2:

- a. Finding: Based on discussions with representatives of PRHRODC as well as examination of financial records at the commonwealth and Local Area levels, we determined that PRHRODC does not match costs with the appropriate fiscal period's funding. Rather, current expenditures are charge against the oldest available funding.
- b. Finding: Expenditure information reported to the Commonwealth by Local Areas was identified by funding period. However, reported expenditures were charge to the earliest year that funding was available, rather than the period in which the expenditures accrued. As a result, a program's cost could not be matched with the period for which it was funded.

Comments (both findings):

The report findings reflect a situation which is not the reality of the PRHRODC accounting procedures and internal controls over financial reporting. The statements included on the draft report give the impression that the PRHRODC record expenditures without regard to the funding source, program, funding period or availability of the funds. As stated, it basically says that the only criteria to record expenditures are how old the funds available are.

The PRHRODC uses the computerized accounting system developed by Micro Information Product (MIP). This accounting system provides the PRHRODC with the ability to track authorizations, expenditures, obligations and unobligated balances through the three years of availability of the WIA funds.

Currently the system is design to trace WIA financial activities by funding year, Programs (Adult, Youth, Dislocated Workers), Activities (Statewide, Statewide Administration, Statewide Activities from Recapture Local Areas funding, Rapid Response, Local Administration, Local Adult, Local Youth, Local Dislocated Workers), subrecipients (PRHRODC, each Local Area or State Agency). This system is in place and operating effectively.

For Statewide Activities (including State Administration and Rapid Response), the PRHRODC records expenditures and obligations at the appropriate moment of recording in accordance with GAAP. To provide an example, an award given to

another state agency the related unliquidated obligation will be recorded by coding the program year (PY or FY), Program, Activity and subrecipient ID. As expenditures are incurred the amount of the unliquidated obligation is decrease and related expenditure is increase.

For Local Areas, the PRHRODC requires that expenditures and unliquidated obligations be accounted and reported by Program Year, Program and activity. This mechanism provides the PRHRODC the means to record and report correctly to the USDOL.

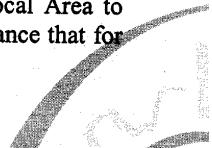
The wording of the draft reports suggests that current period expenditures were charge to prior years or to years for which "funding remained available". We are very diligent with the use of our funds, including complying with the use of funds within the correct periods of availability. As such we incurred and record expenditures only within the two years of availability for local activities and the three years of availability for the State. If expenditure is incurred for the adult program by a local area during February 2003, for example, this cost could only be charge to the current or prior year authorized funds. If a Local Area records the expenditure as program year 2002, the PRHRODC will include that amount with the other local area reported amounts and report the total on the FSR to the USDOL in accordance with the correct funding period and the established formats and requirements.

Procedure 3:

- a. Finding: **PRHRODC officials believed their instructions were being adhere to regarding accruals. Local Area representatives at two of the three Local Areas visited maintained that reported expenditures included accruals. However, the third, Noreste, employs cash-basis accounting for the entire year but makes adjustments at year-end to be reflective of accruals.**

Comment: We are very aware of the importance of fully reporting the correct amount of expenditures at any given period. Follow-up on correct reporting is given monthly by or accounting staff to each Local Area.

This situation represents a temporary difference during the year for the Noreste because as noted on the visit the Noreste accountant reports on the cash-basis. However, at year end the closing reports are required for each program active during the year. The Noreste submits it's closing reports, which among other items, include a final expenditure report and accounts payable list, which forces the Local Area to convert to accrual basis. These reports provide the PRHRODC the assurance that for the June 30 reports the Noreste performs the required adjustments



Procedure 4:

- a. Finding: However, as mentioned at item number 1 of this report, there was no consistency in the information that was reported to the Commonwealth by the Local Areas.

Comment: See our comment to Procedure 1, this item should also consider our comment to revise the statement of the finding.

Procedure 5:

- a. Finding: Selection of sites. No Comment.

Procedure 6:

- a. Finding: No Comment.

Procedure 7:

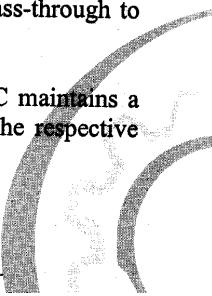
- a. Finding: No Comment.

Procedure 8:

- a. Finding: We obtained copies of these reports (Accumulated Expenditures and Petition of Funds Report) at the Commonwealth level as well as the Local Area level during our visits to the sites. PY and FY data was not reported separately on the monthly reports. Instead, the funding periods were combined and reported as "Año Programa" (Program Year) activity. PY and FY funding was bundled at the Commonwealth level before being allocated to the Local Areas. Expenditures reported to the Commonwealth by the Local Areas were charged against respective PY and FY allocations on a First-In-First-Out (FIFO) basis. This was the means by which the Commonwealth segregated the PY and FY expenditures for reporting purposes on the FSRs.

Comment: The segregation of funding between PY and FY for a determine program year award represents additional reporting requirements for states. Instead of one set of financial reports for a program year funding, two sets must be prepared. Since the WIA implementation, the PRHRODC decided that the extra burden of reporting financial activity between PY and FY portions was not going to be pass-through to Local Areas.

Funds are not bundled together at the Commonwealth, the PRHRODC maintains a proper segregation between PY and FY funding in compliance with the respective earmarking of funds at the State level as well as at the Local Area level.





Local Area activity reported to the PRHRODC for a given program year and Program (which includes both PY and FY activities) is recorded on the FSR worksheets and the PRHRODC general ledger according to the corresponding PY and FY portions of the funds authorized for the Program Year by the USDOL.

- b. Finding: In conjunction with the monthly reports, we reviewed source accounting records at three Local Areas we visited in order to determine if they agreed to the information reported to the Commonwealth. Of the three, only one Local Area (Sureste), provided financial records which supported the amounts reported to the Commonwealth. For both the San Juan and Noreste Local Areas, the source accounting records obtained did not support the amounts reported to the Commonwealth as of March 31, 2002. Representatives of the latter two Local Areas were unable to provide explanations as to why their financial records did not support the reported amounts.

Comment: As the State administrative agency of WIA, the PRHRODC performs annual monitoring visits to all Local Areas to provide reasonable assurance that the Local Areas comply with fiscal and financial requirements. One of the items review during the visits is the appropriated recording and reporting of financial activities. We will review the latest report of the mentioned Local Areas and provide copy of this report to our Auditing and Monitoring Division so that follow-up can be provided to the Local Area regarding the correct recording and reporting of program activities.

Procedure 9:

- a. Finding: As mentioned in item 8 of this report, total funding available for a Local Area's program year is a combination of PY and FY allocations. Therefore, expenditures could not be match with the appropriate PY and FY allocations at the local level.

Comment: see the comment to the Procedure 8 regarding the PY and FY reporting implemented by the PRHRODC.

- b. Finding: Also, the Local Areas employed FIFO methodology in matching period expenditures with funding sources. This methodology did not allow for matching of a particular period's expenditures with funding allotted to that period. As such, expenditures reported by the Local Board are not matched with the funding applicable to the period in which they were obligated, rather they are first matched against prior period remaining funds until these funds have been exhausted and then matched against subsequent period's funding.

For instance, any amount of PY 2000 funding that remained after PY 2000 had lapsed would be used to satisfy subsequent period's expenditures until all of PY 2000 funding was exhausted. Subsequently, PY 2001 funding would have been



**utilized to satisfy the period's expenditures. Matching a period's expenditures against prior period funding dissociates the funding allotted to a specific period from the actual cost of that period.**

Comments: As described on the report (page 3) and WIA regulations, States have the original program year plus two additional program years to spend the grant funds; 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. The Local Areas and the PRHRODC only charge expenditures to grants during their valid period of availability.

The draft report mentions an example that indicates "any amount of PY 2000 funding that remained after PY 2000 had lapsed would be used to satisfy subsequent period's expenditures until all of PY 2000 funding was exhausted." This statement is incorrect and will also reflect an unallowable activity under WIA. It is very important to clearly state that PRHRODC and the Local Areas fully comply with the recording of expenditures within the correct period of availability of funds.

We believe that the independent accountants are incorrect on their statements of the time lapse of funds under WIA. To take their example, PY 2000 funding is available for expenditures until June 30, 2003. After that date, the PRHRODC can not and will not charge any expenditure from the next fiscal year to those funds. This has been the practice for the closed funds of PY 1998 and 1999, which have already ended their availability period. The correct matching of expenditures is performed by recording current expenditures to the correct authorized funds available for the given period.

For instance, a Local Area can legally and correctly charge expenditures to a given grant during the two year period of availability, likewise the State can do so during the three year period established on the WIA regulations (see page 3 of the draft report). By recording in this manner, there will be no disassociation of costs and funding allotted. For actual expenditures of the period will be charged to correct available funds.

Procedure 10:

- a. **Finding: However, as mentioned at item 9 of this report, there is no appropriated matching of funding year and program year cost due to the Commonwealth and Local Areas use of the FIFO methodology.**

Comment: See comments to procedure 9.

