U.S. Department of Labor
Office of Inspector General—Office of Audit

EMPLOYMENT AND TRAINING ADMINISTRATION

ILLINOIS WORKFORCE INVESTMENT ACT STATEWIDE ACTIVITY FOURTH QUARTER EXPENDITURES

Date Issued: March 30, 2007
Report Number: 02-07-202-03-390

U.S. Department of Labor
Office of Inspector General
Office of Audit

BRIEFLY…

Highlights of Report Number: 02-07-202-03-390, to the Assistant Secretary for Employment and Training

WHY READ THE REPORT

Statewide Activity expenditures reported by the State of Illinois, Department of Commerce and Economic Opportunity (DCEO) to the Employment and Training Administration (ETA) for the fourth quarter of Program Year (PY) 2003 (June 30, 2004) were significantly higher when compared to the preceding three PY quarters. ETA, Congress and outside parties rely on data from the Financial Status Reports (FSRs) to make decisions that could have an impact on current and future funding when determining appropriation levels.

This report discusses the causes and the effect of the fourth quarter increase in the State of Illinois' Statewide Activity expenditures.

WHY OIG DID THE AUDIT

The OIG conducted a performance audit to determine the causes for the disproportionate increase in reported WIA Statewide Activity fourth quarter expenditures and whether the increase had an impact on data provided to ETA.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response, go to:

http://www.oig.dol.gov/publicreports/oa/2007/02-07-202-03-390.pdf.

March 2007

ILLINOIS WORKFORCE INVESTMENT ACT STATEWIDE ACTIVITY FOURTH QUARTER EXPENDITURES

WHAT OIG FOUND

Our audit found that the disproportionate increase in fourth quarter expenditures was primarily caused by:

- inaccurate recording and reporting of expenditure data during the transfer of program responsibilities from the Illinois Department of Economic Security to DCEO;
- inaccurate reporting of expenditure transfers from one year to another;
- accrual reporting issues at Local Workforce Investment Areas; and
- grant management issues.

Expenditures were reported in incorrect periods from June 30, 2003, through June 30, 2004. As a result, ETA relied on quarterly FSRs that included differences of up to $4.5 million. ETA, Congress and outside parties rely on data from the FSRs to make decisions that could have an impact on current and future WIA program funding.

WHAT OIG RECOMMENDED

The OIG recommended the Assistant Secretary for Employment and Training ensure:

- DCEO's reporting system includes a timely reconciliation of recorded expenditures to those reported to ETA.
- DCEO's expenditures are reported to ETA consistently on an accrual basis.

In its response to the draft report, DCEO concurred with the audit findings and recommendations.

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Executive Summary

The Office of Inspector General (OIG) conducted a performance audit of the State of Illinois Workforce Investment Act (WIA) Statewide Activity fourth quarter expenditures reported during Program Year (PY) 2003 (July 1, 2003 through June 30, 2004). The audit was conducted at the Illinois Department of Commerce and Economic Opportunity (DCEO) and two local areas: the Workforce Board of Northern Cook County (WBNCC) and the Land of Lincoln Consortium (LOLC).

Statewide Activity expenditures reported by DCEO to the Employment and Training Administration (ETA) for the fourth quarter of PY 2003 (June 30, 2004) were significantly higher when compared to the preceding three PY quarters. The audit objective was to determine the causes for the disproportionate increase in reported fourth quarter expenditures and whether the increase had an impact on data provided to ETA.

Results

The disproportionate increase in reported expenditures for the fourth quarter of PY 2003[1] was primarily caused by:

- inaccurate recording and reporting of expenditure data during the transfer of program responsibilities from the Illinois Department of Economic Security (IDES) to DCEO;
- inaccurate reporting of expenditure transfers from one funding year to another;
- accrual reporting issues at Local Workforce Investment Areas; and
- grant management issues.

As a result of expenditures being reported in incorrect periods by IDES and DCEO from June 30, 2003 through June 30, 2004, ETA relied on quarterly FSRs that included differences of up to $4.5 million. ETA, Congress and outside parties rely on data from the FSRs to make decisions that could have an impact on current and future funding.

[1] Fourth Quarter Expenditures reported in PY 2003 include amounts charged to PY 2001, PY 2002, and PY 2003 funding.

Auditee Response

In an email response to the draft report, the DCEO Division Manager of Budget and Fiscal Monitoring concurred with the audit findings and recommendations, and elected not to submit a formal response.

OIG Conclusion

The recommendations will be resolved during DOL's formal audit resolution process.

Recommendations

We recommend the Assistant Secretary for Employment and Training ensure:

1. DCEO's reporting system includes a timely reconciliation of recorded expenditures to those reported to ETA.

2. DCEO's expenditures are reported to ETA consistently on an accrual basis.

U.S. Department of Labor

Office of Inspector General
Washington, DC. 20210

Assistant Inspector General's Report

Ms. Emily Stover DeRocco
Assistant Secretary for Employment and Training
U. S. Department of Labor
200 Constitution Avenue, N.W.
Washington, DC 20210

We conducted a performance audit of Illinois' WIA Statewide Activity fourth quarter expenditures reported during PY 2003 (July 1, 2003, through June 30, 2004). The audit was conducted at the Illinois DCEO and two local areas: WBNCC and LOLC.

The audit objective was to determine the causes for the disproportionate increase in reported fourth quarter expenditures, and whether the increase had an impact on data provided to ETA.

We conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) for performance audits. Our audit objective, scope, methodology, and criteria are detailed in Appendix B.

Objective – What were the causes for the disproportionate increase in reported fourth quarter expenditures, and did the increase have an impact on data provided to the ETA?

Results and Findings – The disproportionate increase in reported expenditures for the fourth quarter of PY 2003 was primarily caused by:

- inaccurate recording and reporting of expenditure data during the transfer of program responsibilities from IDES to DCEO;
- inaccurate reporting of expenditure transfers from one funding year to another;
- accrual reporting issues at Local Workforce Investment Areas; and
- grant management issues.

As a result of expenditures being reported in incorrect periods by IDES and DCEO from June 30, 2003 through June 30, 2004, ETA relied on quarterly FSRs that included differences of up to $4.5 million.

ETA, Congress and outside parties rely on financial data from the quarterly FSRs to make decisions that could have an impact on current and future funding. Data from the quarterly FSRs are used to:

- Conduct analyses regarding the effectiveness and efficiency of the WIA program.
- Estimate future funding needs and develop initiatives for the subject population.
- Calculate Fund Utilization Rates that impact the awarding of other WIA grants including National Emergency Grants and Demonstration Grants.
- Determine the recapture or potential rescission of WIA funds.
- Provide data used in the preparation of United States Department of Labor Financial Statements.

Data from the quarterly FSRs are also used by Congress to assess the effectiveness and efficiency of the WIA program when considering future appropriation levels.

A. Inaccurate Recording and Reporting of Expenditure Data During the Transfer of Program Responsibilities from IDES to DCEO

29 CFR 97.20 (b) (1) states "Financial reporting. Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant."

- **Expenditures for the Fourth Quarter Ending June 30, 2003, Were Overstated by $4,484,753**

  WIA funding and program administration was transferred from IDES to DCEO effective July 1, 2003. The agencies agreed that IDES would be responsible for the PY 2000 WIA closeout. In accordance with WIA regulation, 20 CFR Part 667.107(a), funds allotted to States are available for expenditure by the State receiving the funds during that program year and the two succeeding program years. In order to fully utilize PY 2000 Statewide Activity funding prior to expiration (June 30, 2003), IDES transferred $4,484,753 of expenditures (incurred prior to June 30, 2003) from PY 2002 funding to PY 2000 funding. These transfers were reflected in the PY 2000 final FSR submitted by the predecessor agency, IDES for the quarter ending June 30, 2003.

DCEO representatives stated they were not aware of this transfer until October 2003. Therefore, the transfer was not recorded until that time. Consequently, DCEO continued to include these expenditures in its PY 2002 FSRs until the quarter ending December 31, 2003.

This resulted in Statewide Activity expenditures reported to ETA being overstated by $4,484,753 for quarters ending June 30, 2003 and September 30, 2003. To correct this overstatement, DCEO decreased its reported expenditures by $4,484,753 for the quarter ending December 31, 2003.

- **Prior Period Understatement of $912,696, Was Reported in the Fourth Quarter Ending June 30, 2004**

  On July 1, 2003, WIA funding and expenditures applicable to PY 2001 and PY 2002 were transferred from IDES to DCEO. The PY 2001 IDES Statewide Activity expenditure transfer of $9,393,989 was composed of $4,606,934 for local projects and $4,787,055 for state projects. Of these total expenditures, DCEO recorded $3,874,359 attributable to state projects, thereby understating costs by $912,696 ($4,787,055 less $3,874,359). This was caused by DCEO overstating the local portion of the transfer by including prior year costs when computing the amount attributable to state projects. DCEO corrected the understatement for the quarter ending June 30, 2004.

  This had the effect of PY 2001 FSRs reported to ETA for the quarters ending September 30, 2003, December 31, 2003, and March 31, 2004, being understated by $912,696 and the fourth quarter PY 2003 expenditures being overstated by the same amount.

B. Inaccurate Reporting of Expenditure Transfers from One Funding Year to Another

29 CFR 97.20 (b) (1) states “Financial reporting. Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant.”

- **Expenditures for the Fourth Quarter Ending June 30, 2004, Were Overstated by $1,181,548**

  DCEO transferred Statewide Activity expenditures in the amount of $1,181,548 from PY 2003 funding to PY 2001 funding. DCEO included this transfer in the PY 2001 FSR for the quarter ending June 30, 2004. However, this transfer was not reflected in the PY 2003 FSR until the subsequent quarter ending September 30, 2004. DCEO representatives stated that for financial reporting purposes the accounting department transferred expenditures to PY 2001 funding, but mistakenly did not reduce the expenditures in PY 2003 funding.

This resulted in Statewide Activity expenditures reported to ETA by DCEO being overstated by $1,181,548 in its June 30, 2004, FSRs.

C. Accrual Reporting Issues at Local Workforce Investment Areas

20 CFR 667.300 WIA final rules August 11, 2000, (3) states "Reported expenditures and program income, including any profits earned, must be on the accrual basis of accounting and cumulative by fiscal year of appropriation." As defined in Training and Employment Guidance Letter No. 16-99, Change 1, entitled "WIA Financial Reporting," accrued expenditures represent "…the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect expense incurred, plus: net increase or decrease in the amounts owed by the state grant recipient for goods and other property received; for services performed by employees, contractors, subgrantees, and other payees, and other amounts becoming owed for which no current services or performance is required, such as, annuities, insurance claims, and other benefit payments."

- **WBNCC - Prior Period Expenditures of $125,945 Were Reported in Fourth Quarter Ending June 30, 2004**

  WBNCC reported $1,056,087, or 82 percent, of its PY 2003 Statewide Activity expenditures, in the fourth quarter ending June 30, 2004. Of this amount, $125,945, or 12 percent, of the expenditures were incurred in the third quarter but were not reported until the fourth quarter FSR. WBNCC financial policies and procedures require expenditures to be recognized in the period incurred. A WBNCC representative stated a contributing factor was contractors not submitting invoices on a timely basis. This had the effect of Statewide Activity expenditures reported to ETA being understated by $125,945 for the quarter ending March 31, 2004, and a corresponding overstatement for the fourth quarter ending June 30, 2004.

- **LOLC – Prior Period Expenditures of $75,139 Were Reported in Fourth Quarter Ending June 30, 2004**

  LOLC reported $378,395, or 76 percent, of its PY 2003 Statewide Activity expenditures in the fourth quarter ending June 30, 2004. Of this amount, $75,139, or 20 percent, of the expenditures were incurred in previous quarters but were not reported until the fourth quarter ending June 30, 2004. LOLC fiscal policies and procedures that were in effect during the audit period did not include specific procedures for accrual basis reporting. Subsequently, effective October 2005, policies and procedures were updated to address accrual reporting. LOLC representatives did not provide reasons for the delay in recording expenditures. This had the effect of Statewide Activity expenditures reported to ETA for the prior quarters being understated and quarterly expenditures incurred in the fourth quarter ending June 30, 2004, being overstated by $75,139.

D. Grant Management Issues

LOLC received funding for two Statewide Activity projects from DCEO for which a majority of expenditures were incurred in the fourth quarter of PY 2003. While grant expenses were accurately reported in the fourth quarter and nothing came to our attention that indicated a negative impact on grant performance, the two projects contributed to the disproportionate increase in reported fourth quarter expenditures.

- **Grant No. 01-67720 – 100 Percent of Expenditures Were Incurred in the Fourth Quarter**

  LOLC received $115,000 from DCEO to procure contractual services to develop a one-stop operational plan and a regional strategic plan. The initial period of performance for the grant was May 7, 2002, through June 30, 2003, and was subsequently extended through June 30, 2004. Contractual services were not procured for the regional strategic plan and the one-stop operational plan until February 27, 2004, and April 6, 2004, respectively. As a result of this 20 month delay in obtaining the services, 100 percent of the expenditures were incurred and reported in the quarter ending June 30, 2004.

- **Grant No. 02-67720 – 98 Percent of Expenditures Were Incurred in the Fourth Quarter**

  LOLC received $187,800 from DCEO to develop a regional strategic plan, as well as for physical improvements (office furnishings). While the period of performance for the grant was November 7, 2002 through June 30, 2004, LOLC incurred and reported $183,812 of the costs (98 percent) in the fourth quarter ending June 30, 2004.

LOLC representatives stated that the above two grants were not executed in a timely manner due to lack of grant management by the previous administrator. They also indicated that there was a significant turnover in the LOLC's upper management.

Auditee Response

In an email response to the draft report, the DCEO Division Manager of Budget and Fiscal Monitoring concurred with the audit findings and recommendations, and elected not to submit a formal response.

OIG Conclusion

The recommendations will be resolved during DOL's formal audit resolution process.

Recommendations

We recommend the Assistant Secretary for Employment and Training ensure:

1. DCEO's reporting system includes a timely reconciliation of recorded expenditures to those reported to ETA.

2. DCEO's expenditures are reported to ETA consistently on an accrual basis.

Elliot P. Lewis

Elliot P. Lewis
June 29, 2006

Appendices

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APPENDIX A

BACKGROUND

On August 7, 1998, President Clinton signed the Workforce Investment Act of 1998 (WIA), comprehensive reform legislation that superseded the Job Training Partnership Act and amended the Wagner-Peyser Act.

Title I of WIA provides for workforce investment activities that increase the employment, retention and earnings of participants, and increase occupational skill attainment by participants, which will improve the quality of the workforce, reduce welfare dependency, and enhance the productivity and competitiveness of the Nation's economy. These goals are achieved through the workforce investment system.

ETA administered funds for Adult, Youth and Dislocated Worker programs nationally, under Title I of WIA in the amounts of $3.5 billion, $3.3 billion, and $3 billion for PY 2001, PY 2002, and PY 2003, respectively. For those same years, Illinois received funding of $133 million, $200 million, and $155 million, respectively. In accordance with WIA regulations, the Governor may reserve up to 15 percent of the Adult, Youth and Dislocated Worker funding streams for Statewide Activities. Funds allotted to States under WIA for any program year are available for expenditures by the State receiving the funds during that program year and two succeeding program years.

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APPENDIX B

OBJECTIVE, SCOPE, METHODOLOGY, AND CRITERIA

Objective

The OIG conducted an audit of WIA funds awarded to Illinois to determine the causes for the disproportionate increase in reported in fourth quarter expenditures, and whether the increase had an impact on data provided to ETA.

Scope

Our audit was conducted in accordance with GAGAS for performance audits and included such tests as we considered necessary to satisfy the audit objectives.

A performance audit includes obtaining an understanding of internal controls considered significant to the audit objectives and testing compliance with significant laws, regulations, and other compliance requirements. In order to plan our performance audit, we considered whether internal controls significant to the audit were properly designed and placed in operation.

ETA provided WIA expenditure data for the period of PY 2001 through PY 2003. We conducted an analysis of this data to determine states that had a disproportionate increase in fourth quarter expenditures. Based on that analysis, we selected Illinois as our audit site. We conducted our audit of DCEO at the State office located in Springfield, Illinois. In addition, based on analysis of state expenditure data we also selected two local areas: WBNCC and LOLC. Fieldwork at WBNCC and LOLC was performed at their office's in Park Ridge, and Springfield, Illinois, respectively. Fieldwork was conducted from May 16, 2005 through April 12, 2006.

Our audit included the examination of Notice of Obligations, sub-recipient agreements, policies and procedures, board of director minutes, general ledgers, journal entries, invoices, cancelled checks, and other source documentation in support of recorded costs.

Methodology

We relied on WIA quarterly expenditure information for each WIA reporting stream[2] obtained from ETA for costs incurred during Program Years 2001 through 2003. We performed a trend analysis by reporting stream of fourth quarter expenditures as compared to the average of the prior three quarters for each of the three program years. Based on this analysis, Illinois' Statewide Activity PY 2003[3] fourth quarter expenditures ($11.6 million) were almost six times the average of the prior three quarters ($2 million). As such, we selected the Illinois DCEO as the audit site.

At DCEO, we conducted tests of data obtained from ETA and applied analytical procedures to determine the reason and causes for the disproportionate increases in fourth quarter expenditures. At the local areas, we audited 100 percent of Statewide Activity expenditures incurred in the fourth quarter of PY 2003 at WBNCC and LOLC for all open funding years (PY 2001 through PY 2003).

We analyzed the expenditures of Illinois' local areas and other sub-recipients to determine those local areas and sub-recipients that significantly contributed to the increase in fourth quarter expenditures. There were 36 local areas and sub-recipients that reported Statewide Activity project costs in PY 2003. Fifteen of 36 local areas and sub-recipients reported that at least 50 percent of their expenditures were incurred during the fourth quarter. We selected WBNCC and LOLC based on the percentage of fourth quarter expenditures as well overall dollar magnitude.

At the state and local sites, we obtained an understanding of internal controls through inquiries with appropriate personnel, inspection of relevant documentation, review of procedures, and observations of current operations. The nature and extent of our testing was based on the auditors' judgment.

At DCEO, we reconciled WIA Notice of Obligations to reporting stream calculations. We traced reported Statewide Activity expenditures as of June 30, 2004 to the supporting trial balance, journal entries, and local area/other sub-recipients FSRs.

At WBNCC and LOLC, we audited 100 percent of Statewide Activity expenditures incurred in the fourth quarter of PY 2003. We traced expenditures from the local areas financial status reports to the trial balance and transaction detail reports, sub-grantee agreements, contracts, director minutes, consulting agreements, invoices, and cancelled checks.

[2] Reporting streams include Local Adult, Youth, Dislocated Worker, Administration, and state reserves for Statewide Activity and Rapid Response.
[3] Expenditures incurred during PY 2003 include amounts charged to PY 2001 through PY 2003 funding.

Criteria

We used the following criteria to perform this audit:

- The Workforce Investment Act of 1998, Public Law 105-220, dated August 7, 1998
- Workforce Investment Act; Final Rule, 20 CFR Part 652, et al., dated August 11, 2000
- 29 CFR Part 97 - Uniform Administrative Requirements for Grant and Cooperative Agreements to State and Local Governments)
- OMB Circular A-87 - Cost Principles for State, Local and Indian Tribal Governments
- Training and Employment Guidance Letter (TEGL) No. 16-99 dated June 23, 2000
- Training and Employment Guidance Letter (TEGL) No. 16-99 change 1 dated November 6, 2002

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APPENDIX C

ACRONYMS AND ABBREVIATIONS

CFR	Code of Federal Regulations
DCEO	Department of Commerce and Economic Opportunity
ETA	Employment and Training Administration
FSR	Financial Status Report
IDES	Illinois Department of Economic Security
LOLC	Land of Lincoln Consortium
OIG	Office of Inspector General
OMB	Office of Management and Budget
PY	Program Year
TEGL	Training and Employment Guidance Letter
WBNCC	Workforce Board of Northern Cook County
WIA	Workforce Investment Act

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APPENDIX D

AGENCY RESPONSE

In an email response to the draft report, the DCEO Division Manager of Budget and Fiscal Monitoring concurred with the audit findings and recommendations, and elected not to submit a formal response.