STATE OF TENNESSEE
DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT

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February 28, 2003

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

Dear Mr. Wallace:

Below are our comments regarding the draft report on applying agreed-upon procedures as it relates to financial activities involving Workforce Investment Act (WIA) grant and Job Training Partnership Act transition funds awarded to Tennessee.

Summary of Results

1. We obtained and summarized the WIA funds obligated and expended as of December 31, 2001, based on records available at Tennessee Department of Labor and Workforce Development (TDOLWD). We determined that the obligation information reported by TDOLWD, as of December 31, 2001, included the actual obligations for statewide activities. However, the portion of obligations reported on the Financial Status Reports (FSRs) attributable to Local Boards included grant funds passed to the Local Boards, not the amounts that the Local Boards had actually obligated.

Comments:

We concur with the summary statement as shown above; however, we do not believe this to be contrary to Federal opinion on this issue. The State has a legal obligation to the Local Boards due to the contractual relationship of awarding funds based on formularies through contracts signed by both parties. TDOLWD FSR obligations as the grantee are at the state level.

Summary of Results

2. We found that the accounting records supported the amounts reported as obligations and expenditures on FSRs. Procedures were established for recording transactions on the accrual basis of accounting at both State and Local program levels, in accordance with Federal regulations. However, we found one of the three Local Boards visited, the Knox County Community Action Committee, reported expenditures on the cash basis of accounting, to TDOLWD, during our review period. The amount of expenditures reported to TDOLWD by the Local Boards were substantiated by monthly reports submitted from the Local Boards and subcontractors.

Comments:

TDOLWD had issued specific instructions to all Local Areas prior to the December 31, 2001 quarterly reporting period to accrue expenditures for quarterly reporting purposes. Even if the Local Area's books are maintained on a cash basis, they are to prepare and maintain documentation of accruals applicable to the period reported. The Federal Status Reports were accurate based upon the information received by TDOLWD.

Summary of Results

3. As of December 31, 2001, Tennessee had expended $52.5 million of the $109.7 million awarded, leaving $57.2 million or 52.1 percent unexpended. At this rate of spending, it would take approximately twenty months to spend the remaining funds, during which time TDOLWD would receive additional WIA allocations.

Comments;

We concur with the amount of unexpended funds; however, TDOLWD would like to include in the summary that $20.7 million of the unexpended $57.2 million amounts or 36.2 percent unexpended is from funding received on October 1, 2001, just three months prior to issuance of the report. Given that WIA allocations are available for expenditure for a period of three years, TDOLWD is comfortable with this level of expenditures during the first eighteen months into this program. Since December 31, 2001, TDOLWD has been overwhelmed with requests from Local Areas for additional funding due to layoffs and plant closures.

Summary of Results

4. TDOLWD and Local Boards charged expenditures to WIA grants on a First-In-First-Out (FIFO) basis, rather than matching Program Year (PY) expenditures with the grant awards applicable to that period. If the FIFO methodology of charging costs had not been used, any expired funds would have been returned to the U.S. Department of Labor (USDOL).

Comments:

The above statement makes it appear that funding periods are not being observed in recording expenditures. The Local Areas have two years in which to expend funds given during any one funding period. Since funding period's overlap, expenditures for a similar program are allowable under that program for any funding period remaining unexpended during the entire period. If funding remains in the oldest available period after obligations for that period are exhausted, allowable expenditures are reported to use remaining balances where possible. This is an acceptable practice under OMB Circular A-87(C)(3)(c) "...would not preclude governmental units from shifting costs that are allowable under two or more awards in accordance with existing program agreements." As of the December 31, 2001 reports, the only funding under WIA that had expired was the PY 1998 funding rolled from JTPA. From these expired funds TDOLWD returned to the USDOL $43,238 in unexpended availability.

The Tennessee Department of Labor and Workforce Development appreciates the opportunity to comment on this draft report. We look forward to receiving further guidance from the Employment Training Administration (ETA), Office of Grants and Contract Management (OGCM).

Sincerely,

James G. Neeley

JGN:ESP:TLM