MEMORANDUM FOR: EMILY STOVER DeROCCO
Assistant Secretary for
Employment and Training

Elliot P. Lewis

FROM: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

SUBJECT: Evaluation of Workforce Investment Act
Obligations and Expenditures
Management Letter No. 04-03-022-03-390

To determine the status of Workforce Investment Act (WIA) obligations and expenditures as of December 31, 2001, the Office of Inspector General (OIG) engaged the public accounting firms of R. Navarro & Associates and Harper, Rains, Stokes & Knight to conduct agreed-upon procedures (AUP) in 10 selected states. (See Attachment for a summary of the results of the AUP engagements.)

We have evaluated the results of the 10 AUP engagements. The results of our evaluation are presented below.

BACKGROUND

Some states and congressional delegations raised concerns with respect to allotments under WIA Title I. Specifically, the Administration reduced all states' allotments for PY 2001 based on relatively low rates of reported expenditures of WIA Title I funds during PY 2000 – the first year of WIA's full implementation. The Administration reasoned that reduced allotments were justified because of the significant amount of unexpended PY 2000 funds being carried over for expenditure in PY 2001. However, some states countered that substantial amounts of unexpended PY 2000 funding were obligated (legally committed), and therefore not available in PY 2001.

In November 2002, the General Accounting Office (GAO) issued a report, "States' Spending is on Track, but Better Guidance Would Improve Financial Reporting." GAO argued that ETA's reliance on expenditure rates understated program cost. They concluded that "obligations" were a better representation of WIA resource consumption.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of our evaluation was to determine which measurement -- obligations or expenditures -- provided a more reliable rate of WIA resource consumption.

Our evaluation was based on the results of AUPs conducted in California, Louisiana, Maryland, Michigan, North Carolina, Ohio, Pennsylvania, Puerto Rico, South Carolina, and Tennessee.

In general, the AUPs summarized the states' financial activity (obligations and expenditures) for the period July 1, 2000 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 states and local boards had obligated and expended WIA funds.

The 10 states were judgmentally selected. Agreed Upon Procedures were performed in each state. Individual AUP reports were prepared for each state, the results of which are summarized in the Attachment.

RESULTS

Our evaluation of the information provided in the 10 AUP reports revealed the following:

- Based on average monthly expenditures during the preceding 18 months, the 10 states reported unexpended balances as of December 31, 2001, that would permit them to operate for about 19 months even without the influx of new allotments. However, the states reported unobligated balances that would only permit about 5 more months of operation.

- Reported obligations were generally overstated. Most states were reporting all local board funding as obligated, even though the boards had not entered into legal commitments for WIA services. States interpreted WIA financial reporting requirements differently, resulting in inconsistent reporting of amounts obligated for local level activities.

  Seven states reported substantially all funds obligated as of December 31, 2001. These states reported actual obligations for state level activities, but reported all funds passed to local boards as obligated even though they had not been legally committed for WIA services.

  The remaining three states reported substantial unobligated balances. Two of the three reported actual obligations for both state and local activities. The remaining state reported amounts expended as obligations.

- Notwithstanding how they reported obligations to DOL, five states did not require local boards to report obligations or unliquidated obligations to the state.

- Reported expenditures were generally understated. WIA regulations require reporting of accrued expenditures. However, in six states, some local boards were reporting expenditures on a cash basis. The states compiled local board expenditures for inclusion on Financial Status Reports (FSRs). Therefore, 60 percent of the states reviewed were not reporting expenditures on a full accrual basis.

- All 10 states recorded expenditures against appropriated funds on a first-in, first-out (FIFO) basis, meaning that expenditures were charged to the earliest available appropriation, instead of the appropriation applicable to the period in which the expenditure was incurred. FIFO accounting does not permit an accurate evaluation of PY cost. Also, it affords states the opportunity to consume unneeded resources that would otherwise be returned to DOL.

CONCLUSION

Based on our evaluation results, we make the following observations that we believe should be considered in the upcoming debate over reauthorization of WIA, which expires September 30, 2003:

1. Obligations provide a better gauge of states' WIA funding requirements than expenditure rates, **if obligations accurately reflect legally committed funds and are consistently reported**.

2. FIFO reporting of expenditures at state and local levels, while permitted, does not allow proper matching of a particular period's sources and application of funds.

Finally, we believe working with the states to improve the accuracy, consistency and completeness with which expenditure and obligation data are reported would improve ETA's ability to measure and manage WIA resource consumption. ETA issued revised instructions in November 2002 to clarify WIA financial reporting requirements; however, additional guidance and technical assistance are needed to ensure WIA funds are properly accounted for and reported, particularly at the local level.

Our evaluation is provided for your information and consideration. While no response is required, we welcome your views on this subject.

If you have any questions, please call me at (202) 693-5170, or Robert Wallace, Regional Inspector General for Audit in Atlanta, at (404) 562-2341.

Attachment

ATTACHMENT

EVALUATION OF WORKFORCE INVESTMENT ACT OBLIGATIONS AND EXPENDITURES AS OF DECEMBER 31, 2001

CATEGORY	STATE VISITED										SUMMARY
	CA	LA	MD	MI	NC	OH	PA	PR	SC	TN	
Awarded*	$1,308	$143	$98	$165	$123	$259	$283	$558	$85	$110	$3,132
Obligated*	$991	$68	$97	$160	$117	$262**	$271	$306	$77	$102	$2,451
Unobligated*	$317	$75	$2	$5	$6	-$3	$12	$253	$8	$8	$683
Percentage Unobligated	24%	52%	2%	3%	5%	-1%	4%	45%	9%	7%	15%
Months Unobligated	5.8	20.0	0.3	0.5	0.9	-0.2	.8	14.9	1.9	1.4	4.6
Expended*	$680	$63	$54	$107	$69	$93	$169	$205	$38	$53	$1,531
Unspent*	$628	$80	$44	$58	$54	$166	$114	$353	$47	$57	$1,601
Percentage Unspent	48%	56%	45%	35%	44%	64%	40%	63%	55%	52%	50%
Months Unspent	16.6	22.7	14.8	9.7	13.9	31.9	12.2	30.9	22.5	19.6	19.5
All Local Funds Obligated	No	No	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	7 Yes 3 No
Local Boards Reported Obligations	Yes	No	No	Yes	No	No	Yes	Yes	Yes	No	5 Yes 5 No
Local Boards Reported on Cash Basis***	Yes	Yes	No	No	Yes	Yes	No	Yes	No	Yes	6 Yes 4 No
Expenditures Charged on a FIFO Basis	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	10 Yes

** Dollar amounts are in millions and may not total due to rounding.*
*** Ohio had not reduced obligated funds to reflect PY 2001 rescission by DOL*
**** Recorded as “Yes” if at least one of the local boards we visited reported expenditures to the State on a cash basis.*