



REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE WORKFORCE DEVELOPMENT CABINET

**Made as Part of the Statewide Single Audit
of the Commonwealth of Kentucky**

For the Year Ended June 30, 1998

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INTRODUCTION

WORKFORCE DEVELOPMENT CABINET
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1998

Introduction

The Auditor of Public Accounts, acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Public Law 104-156, referred to as the Single Audit Act Amendments of 1996, is effective for fiscal years beginning after June 30, 1996.

Audit Approach

Our audit was conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The scope of the statewide single audit for the year ended June 30, 1998 included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards;
- An audit of supplementary Schedule of Expenditures of Federal Awards in accordance with generally accepted government auditing standards;
- An audit of the internal control applicable to the Workforce Development Cabinet, to the extent necessary to consider and test the internal accounting and administrative control systems as required by generally accepted government auditing standards, the Single Audit Act Amendments of 1996, and the provisions of OMB Circular A-133; and
- A selection and testing of transactions and records relating to each major federal financial assistance program to obtain reasonable assurance that the Workforce Development Cabinet administers its major federal financial assistance programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth of Kentucky's general-purpose financial statements.

The Auditor of Public Account's office conducted the audit of the internal control, focusing on the following objectives:

- Considering the internal control at the Workforce Development Cabinet in order to determine auditing procedures on the general-purpose financial statements of the Commonwealth of Kentucky.
- Determining if the Workforce Development Cabinet has an internal control to provide reasonable assurance that it is managing the federal assistance programs in compliance with applicable laws and regulations.

**WORKFORCE DEVELOPMENT CABINET
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

List Of Abbreviations/Acronyms Used In This Report

A & FM	Administrative and Financial Management Branch
AFR	Annual Financial Report
AIC	Auditor in Charge
CFDA	Catalog of Federal Domestic Assistance
DC	District of Columbia
DES	Department of Employment Services
DIS	Department of Information Systems
DWP	Dislocated Workers Program
DWSPR	Dislocated Worker Special Project Reports
DOL	Department of Labor
ETA	Employment and Training Administration (of the Department of Labor)
FASB	Financial Accounting Standards Board
FY	Fiscal Year
FYE	Fiscal Year Ending
GASB	Governmental Accounting Standards Board
JTPA	Jobs Training Partnership Act
KRS	Kentucky Revised Statutes
MARS	Management Administrative Reporting System
MIS	Management Information Systems
NA	Not Applicable
NAFTA	North American Free Trade Agreement
NCKC	North Central Kentucky Council
NRA	National Reserve Award
NRG	National Reserve Grant
OMB	Office of Budget and Management
OTR	Office of Training and Re-Employment
PIV	Pay-In Voucher
PY	Program Year
RCW	Record of Control Weakness
SDA	Service Delivery Area
SSG	Sub-State Grantee
STARS	Statewide Accounting and Reporting System
TAA	Trade Adjustment Assistance
TSO	Time-Sharing Option
UI	Unemployment Insurance
UIA	Unemployment Insurance Administration
UIB	Unemployment Insurance Benefits
U.S.	United States
USDOL	United States Department of Labor
WFDC	Workforce Development Cabinet

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1998**

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS- THROUGH GRANTOR'S #	EXPENDITURES CASH	NON CASH
<u>U.S. Department of Agriculture</u>			
Passed Through From Cabinet For Health Services:			
10.561 State Administrative Matching Grants For Food Stamp Program	NA	\$ 1,450,904	
<u>U.S. Department of Labor</u>			
Direct Program:			
17.002 Labor Force Statistics	NA	836,803	
17.207 Employment Services (Note 2)(Note 5)	NA	13,465,219	
17.225 Unemployment Insurance(Note 2)(Note 4)(Note 5)	NA	251,774,472	
17.245 Trade Adjustment Assistance – Workers	NA	11,043,255	
17.246 Employment and Training Assistance-Dislocated Workers (Note 2)(Note 5)	NA	16,145,713	
17.250 Job Training Partnership Act (Note 2)(Note 5)	NA	26,623,795	
17.801 Disabled Veterans' Outreach Program (Note 2)	NA	781,580	
17.804 Local Veterans' Employment Representative Program (Note 2)	NA	893,928	
<u>U.S. Department of Education</u>			
Direct Programs:			
84.002 Adult Education - State Grant Program (Note 5)	NA	5,147,157	
84.007 Federal Supplemental Educational Opportunity Grants	NA	179,660	
84.033 Federal Work - Study Program	NA	193,113	
84.048 Vocational Education - Basic Grants to States (Note 2)(Note 5)	NA	11,554,182	
84.049 Vocational Education - Consumer and Homemaking Education (Note 3)	NA		
84.053 Vocational Education - State Councils	NA	44,611	
84.063 Federal Pell Grant	NA	6,544,559	
84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States (Note 2)(Note 5)	NA	42,390,649	
84.161 Rehabilitation Services - Client Assistance Program	NA	135,523	

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1998**

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS- THROUGH GRANTOR'S #	EXPENDITURES CASH	NON CASH
<u>U.S. Department of Education</u> (Continued)			
84.169	Independent Living - State Grants	NA	\$ 316,924
84.174	Vocational Education - Community Based Organizations (Note 3)	NA	
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind (Note 5)	NA	177,299
84.187	Supported Employment Services for Individuals with Severe Disabilities	NA	508,867
84.192	Adult Education - Literacy Training for Homeless Adults (Note 3)	NA	
84.199	Vocational Education - Cooperative Demonstration (Note 3)	NA	
84.224	State Grants for Assistive Technology (Note 5)	NA	658,109
84.243	Tech Prep Education (Note 5)	NA	2,575,094
84.254	State Literacy Resource Centers (Note 3)	NA	
84.257	National Institute for Literacy (Note 5)	NA	63,144
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	NA	143,489
84.278	School-to-Work Implementation Grant (Note 5)	NA	4,038,551
Passed Through From Cabinet For Families and Children:			
84.181	Special Education - Grants for Infants and Families with Disabilities (Note 3)	NA	
<u>U.S. Department of Health and Human Services</u>			
Direct Programs:			
93.048	Special Programs for the Aging - Title IV - Training, Research and Discretionary Projects and Programs (Note 5)	NA	6,574
93.563	Child Support Enforcement	NA	28
Passed Through From Cabinet for Families and Children:			
93.558	Temporary Assistance for Needy Families (Note 5)	NA	640,514
93.561	Job Opportunities and Basic Skills Training	NA	215

See accompanying notes to the Schedule of Expenditures of Federal Awards

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1998**

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS- THROUGH GRANTOR'S #	EXPENDITURES CASH	NON CASH
<u>U.S. Department of Health and Human Services</u>			
(Continued)			
Passed Through From Cabinet For Health Services:			
93.630 Developmental Disabilities Basic Support And Advocacy Grants (Note 3)	NA	\$ 0	
93.958 Block Grant for Community Mental Health Services	NA	3,683	
<u>U.S. Department of Veterans Affairs</u>			
Direct Program:			
NA Veterans Administration - State Approving Agency	NA	181,895	
<u>U.S. National Occupational Information Coordinating Committee Direct Program:</u>			
NA National Occupational Information Coordinating Committee	NA	<u>108,532</u>	
Total Workforce Development Cabinet		<u><u>\$398,628,041</u></u>	

**CABINET FOR WORKFORCE DEVELOPMENT
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1998**

Note 1 – Purpose of the Schedule and Significant Accounting Policies

Purpose of the Schedule – OMB Circular A-133, “Audits of State and Local Governments and Non-Profit Organization,” requires a Schedule of Expenditures of Federal Awards showing each federal program as identified in the Catalog of Federal Domestic Assistance.

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133. As defined in that Circular, federal financial assistance “. . . means assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property, interest subsidies (including donated surplus property) and other assistance, but does not include amounts received as reimbursement for services indirectly from passed-through entities.” Accordingly, the accompanying schedules include cash federal assistance programs; the Cabinet for Workforce Development had no non-cash federal financial assistance for the year ended June 30, 1998. Those programs that have not been assigned a catalog number, or for which the catalog number was not available, have been shown at the bottom of the relevant federal grantor subheading.

Reporting Entity – The Cabinet for Workforce Development is an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010 and is included in the Commonwealth of Kentucky entity for financial reporting purposes. The accompanying Schedule of Expenditures of Federal Awards of the Cabinet for Workforce Development presents only that portion of the federal financial assistance of the Commonwealth of Kentucky that is attributable to the transactions of the Cabinet for Workforce Development.

Basis of Accounting – The accompanying Schedule of Expenditures of Federal Awards is presented on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS.45.229 provides that the Finance and Administration Cabinet may, “. . . for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in the fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The Commonwealth’s general-purpose financial statements are presented on the accrual/modified accrual basis of accounting. Therefore, the Schedule of Expenditures of Federal Awards – Cash Assistance Programs may not be directly traceable to the general-purpose financial statements in all cases.

**CABINET FOR WORKFORCE DEVELOPMENT
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

Note 1 – Purpose of the Schedule and Significant Accounting Policies (Continued)

Inter-Agency Activity – Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Workforce Development Cabinet's Schedule of Expenditures of Federal Awards:

- (a) Federal moneys may be received by one state agency (primary state agency – recipient) and passed through to another state agency (secondary state agency – subrecipient) where the moneys are expended. Except for pass throughs to state universities as discussed below, this interagency transfer activity is reported in the Workforce Development Cabinet's schedules of federal financial assistance as follows:
- Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
 - Under the secondary state agency, the federal program is reported as a pass through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because the Workforce Development Cabinet's schedule excludes federal financial assistance related to state universities, when a state agency passes through federal money to a state university, this is reported in the schedules as an expenditure of that state agency.

- (b) Federal moneys received by the Workforce Development Cabinet and used to purchase goods or services from another state agency are reported in the Workforce Development Cabinet's schedule only as an expenditure.

**CABINET FOR WORKFORCE DEVELOPMENT
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

Note 2 – Type A Programs

Under the provisions of OMB Circular A-133, a federal program must be defined as Type A or Type B programs. For the Statewide Single Audit of the Commonwealth of Kentucky, a Type A program must have expended over \$12 million. All other programs are Type B programs. Clusters are a group of closely related programs sharing common compliance requirements. A cluster of programs must be considered as one program for determining Type A programs.

The Workforce Development Cabinet had eight programs (cash) which met the Type A program definition for the year ended June 30, 1998. The Workforce Development Cabinet had two clusters, which included more than one federal financial assistance program among the major programs. The Workforce Development Cabinet Type A programs were:

<u>CFDA #</u>	<u>Program Title</u>	<u>Expenditures</u>
17.207	Employment Services	\$ 13,465,219 (a)
17.225	Unemployment Insurance	251,774,472
17.246	Employment and Training Assistance – Dislocated Workers	16,145,713 (b)
17.250	Job Training Partnership Act	26,623,795 (b)
17.801	Disabled Veterans' Outreach Program	781,580 (a)
17.804	Local Veterans' Employment Representative Program	893,928 (a)
84.048	Vocational Education – Basic Grants to States	11,554,182 (c)
84.126	Rehabilitation Services – Vocational Rehabilitation Grants To States	42,390,649
		<hr/>
		<u>\$ 363,629,538</u>

Identified clusters include:

- (a) Employment Services Cluster
- (b) JTPA Cluster
- (c) CFDA 84.048 passed through \$6,610,590 to the Department of Education, which raised total expenditures over the \$12 million threshold.

Note 3 – Zero Expenditure Programs

These programs had no expenditures during the year ended June 30, 1998. They included programs with no activity during the year such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures.

**CABINET FOR WORKFORCE DEVELOPMENT
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

Note 4 – Unemployment Insurance

(CFDA # 17.225) – The Workforce Development Cabinet paid out \$229,463,951 in Unemployment Insurance benefits during the year ended June 30, 1998. The amounts shown on the accompanying Schedule of Federal Expenditures of Federal Awards reflect both the amount expended for benefits from the Trust Fund, but an additional \$22,310,521 of federal moneys was expended for administration of the program, for a combined total of \$251,774,472. This is being reported as combined this year in accordance with the OMB Circular A-133 Compliance Supplement.

Note 5 – Subrecipient Activity

A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program. The following list summarizes the amount of federal funds sent to subrecipients:

CFDA #	Federal Program Name	Amount Sent
17.207	Employment Services	\$ 774,045
17.225	Unemployment Insurance	94,804
17.246	Employment and Training Assistance– Dislocated Workers	7,907,160
17.250	Job Training Partnership Act	25,700,038
84.002	Adult Education – State Grant Program	4,732,518
84.048	Vocational Education – Basic Grants to States	5,660,013
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	33,569
84.177	Rehabilitation Services – Independent Living Services for Older Individuals Who are Blind	88,844
84.224	State Grants for Assistive Technology	360,756
84.243	Tech Prep Education	2,439,290
84.257	National Institute for Literacy	(104)
84.278	School-to-Work Implementation Grant	3,584,128
93.048	Special Programs for the Aging – Title IV – Training, Research and Discretionary Projects and Programs	2,617
93.558	Temporary Assistance for Needy Families	591,974
	Total Amount Sent to Subrecipients	\$ 51,969,652

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REPORT ON COMPLIANCE AND INTERNAL CONTROL



Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
Allen D. Rose, Secretary
Workforce Development Cabinet

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The General-Purpose Financial Statements Performed In Accordance With Government Auditing Standards

As part of the audit of the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1998, we have audited cash, receipts, receivables, expenditures, payables, and payroll of the Workforce Development Cabinet, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, and have issued our report thereon dated January 30, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commonwealth of Kentucky's financial statements are free of material misstatement, we performed tests of the Workforce Development Cabinet's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Workforce Development Cabinet's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Workforce Development Cabinet's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 98-WFDC-1.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Allen D. Rose, Secretary
Workforce Development Cabinet
Report On Compliance And On Internal Control Over
Financial Reporting Based On An Audit Of The General-Purpose
Financial Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the Workforce Development Cabinet and are described in the accompanying Schedule of Findings and Questioned Costs of this report.

This report is intended solely for the information and use of management and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork complete -
January 29, 1999



Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
Allen D. Rose, Secretary
Workforce Development Cabinet

Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards

Compliance

As part of the Statewide Single Audit of the Commonwealth of Kentucky, we have audited the compliance of the Workforce Development Cabinet, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. The Workforce Development Cabinet's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Workforce Development Cabinet's management. Our responsibility is to express an opinion on the Workforce Development Cabinet's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Workforce Development Cabinet's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Workforce Development Cabinet's compliance with those requirements.

In our opinion, the Workforce Development Cabinet complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Allen D. Rose, Secretary
Workforce Development Cabinet
Report On Compliance With Requirements Applicable
To Each Major Program And On Internal Control Over Compliance In Accordance
With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards
(Continued)

Internal Control Over Compliance

Management of the Workforce Development Cabinet is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Workforce Development Cabinets' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over compliance that we have reported to the management of the Workforce Development Cabinet and are described in the accompanying Schedule of Findings and Questioned Costs of this report.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of Commonwealth of Kentucky as of and for the year ended June 30, 1998, and have issued our report thereon dated January 30, 1999. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the Workforce Development Cabinet is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements.

As described in Note 1, the Schedule of Expenditures of Federal Awards of the Workforce Development Cabinet is intended to present only that portion of the expenditures of federal awards of the Commonwealth of Kentucky that is attributable to the transactions of the Workforce Development Cabinet.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Allen D. Rose, Secretary
Workforce Development Cabinet
Report On Compliance With Requirements Applicable
To Each Major Program And On Internal Control Over Compliance In Accordance
With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards
(Continued)

Schedule of Expenditures of Federal Awards (Continued)

The general-purpose financial statements of the Commonwealth of Kentucky are prepared on the accrual/modified accrual basis of accounting. However, as described in Note 1, the Schedule of Expenditures of Federal Awards of the Workforce Development Cabinet is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the Schedule of Expenditures of Federal Awards is not intended to present the expenditures of federal awards in conformity with generally accepted accounting principles.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the Schedule of Expenditures of Federal Awards of the Workforce Development Cabinet is fairly stated, in all material respects, in relation to the Commonwealth of Kentucky's general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of management and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Sincerely,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork complete –
July 9, 1999

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statement Accounts And Schedule Of Expenditures Of Federal Awards

Financial Statement Accounts: We issued a qualified opinion on the Commonwealth of Kentucky’s general-purpose financial statements, which include the Workforce Development Cabinet, as of and for the fiscal year ended June 30, 1998, because we were unable to verify evidence regarding year 2000 disclosures.

Schedule of Expenditures of Federal Awards: We issued a qualified opinion on the Workforce Development Cabinet’s Schedule of Expenditures of Federal Awards because the schedule was presented on a basis of accounting that is not in conformance with generally accepted accounting principles as described in Note 1 of the schedule. The opinion was issued in relation to the Commonwealth’s general-purpose financial statements taken as a whole.

Internal Control Over Financial Reporting: Our consideration of the Workforce Development Cabinet’s internal control over financial reporting disclosed one reportable condition. We believed that this reportable condition did not represent a material weakness. The reportable condition, which was disclosed during our audit of the general-purpose financial statements of the Commonwealth of Kentucky, is applicable to the Workforce Development Cabinet’s Department for Unemployment Insurance.

The reportable condition is presented in detail in Section 2, Financial Statement Findings and Questioned Costs, of the Schedule of Findings and Questioned Costs.

Compliance: In relation to the audit of the Commonwealth of Kentucky’s general-purpose financial statements, which includes the Workforce Development Cabinet, and the Schedule of Expenditures of Federal Awards, the results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted government auditing standards.

Federal Awards

Internal Control Over Compliance: Our consideration of the Workforce Development Cabinet’s internal control over compliance disclosed no reportable conditions. However, we noted other matters which were presented to management and are disclosed in Section 3 of the Schedule of Findings and Questioned Costs of this report.

Compliance: We issued an unqualified opinion on the Workforce Development Cabinet’s compliance with the requirements applicable to each of its major federal programs. The results of our auditing procedures disclosed no instances of noncompliance which are required to be reported in accordance with OMB Circular A-133. However, we noted other matters which were presented to management and are disclosed in Section 3 of the Schedule of Findings and Questioned Costs of this report.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS (CONTINUED)

Identification of Major Programs Audited

OMB Circular A-133 defines a major program as “a Federal program determined by the auditor to be a major program in accordance with section __.520 or a program identified as a major program by the Federal awarding agency or pass-through entity in accordance with section __.215(c).” Section __.520 states, “The auditor shall use a risk-based approach to determine which Federal programs are major programs.” The following is a list of major Type A programs audited:

CFDA #	Program Title	Expenditures
17.207	Employment Services	\$ 13,465,219 a
17.225	Unemployment Insurance	251,774,472
17.246	Employment and Training Assistance – Dislocated Workers	16,145,713 b
17.250	Job Training Partnership Act	26,623,795 b
17.801	Disabled Veterans’ Outreach Program	781,580 a
17.804	Local Veterans’ Employment Representative Program	893,928 a
84.048	Vocational Education – Basic Grants to States	18,164,772 c
84.126	Rehabilitation Services – Vocational Rehabilitation Grants To States	<u>42,404,183</u>
	Total Type A Programs Audited	\$370,253,662

Identified clusters include:

a – Employment Services Cluster

b – JTPA Cluster

c – CFDA 84.048 passed through \$6,610,590 to the Department of Education, which raised total expenditures over the \$12 million threshold.

Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B programs was \$12,000,000.

Auditee Qualify as Low-Risk Auditee?

The Commonwealth of Kentucky did not qualify as a low-risk auditee.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls And/Or Compliance:

FINDING 98-WFDC-1: The Workforce Development Cabinet Should Improve Logical Access Security Procedures For The Unemployment Insurance Systems

State Agency: Division of Unemployment Insurance

The Workforce Development Cabinet (WFDC) did not provide adequate security for the Unemployment Insurance Systems (UIA/UIB). WFDC security did not ensure proper segregation of duties, and system access request documentation did not exist for all changes made. Review of the WFDC computer security procedures for granting authorized access to the Department of Information Systems (DIS) programmers through the time-sharing Option (TSO) resulted in the following exceptions:

- One DIS production coordinator was given update access to a production library. WFDC did not have proper documentation for this access request.
- Three DIS programmers were given update access to a UIB dataset.

Providing programmers with update access to production data and/or job control libraries is a segregation of duty weakness that increased the risk of unauthorized changes to data or programs. In addition, the propriety of user access cannot be ensured without an approved documented access request for users.

System security should be administered in such a way as to ensure proper segregation of duties. Employees should be granted the minimum access necessary for the completion of their job duties. A strong security environment will not allow programmers access to data without authorization and oversight. Further, documentation should be available to verify proper authorization of system access granted.

Recommendation

The update level of access granted to DIS employees should be removed by the WFDC security coordinator. If DIS employees are granted update access, it should only be in an emergency situation, in which case activity should be closely monitored. The WFDC security coordinator should promptly revoke the access granted once the emergency situation is resolved. Further, established access control procedures should be consistently followed by retaining documented access authorization for all changes made system user access.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)

FINDING 98-WFDC-1: The Workforce Development Cabinet Should Improve Logical Access Security Procedures For The Unemployment Insurance Systems (Continued)

Management’s Response and Corrective Action Plan

Based on the memo from personnel within the Division of Computer Services at WFDC, “the security files/folders are open to auditing at any time. A twelve-page documented report was provided to this group of auditors on June 28, 1999, regarding access for DIS programmers. You may rest assured that any update access for DIS programmers to data files for the UIA/UIB systems that has not been changed from update to read will be done immediately. In addition, future access for DIS programmers to these two systems (UIA and UIB) will require a written request from a supervisor and will be set up for a very limited time only.”

Auditor’s Response

The auditor would like to clarify the fact that the report developed and provided by the Division of Computer Services was based upon our request for documentation of current access levels for DIS employees.

Other Matters Relating To Internal Controls And/Or Compliance:

FINDING 98-WFDC-2: The Workforce Development Cabinet Should Develop Controls To Ensure That Only Authorized Personnel Review And Approve Pay-In Vouchers

State Agency: Division of Unemployment Insurance

Receipt testing noted that two Unemployment Insurance employees signed Pay-In Vouchers (PIVs) without proper approval. The auditor verified with Workforce Development Cabinet (WFDC) that signature cards authorizing them to approve PIVs were not on file for these two employees. Thus, documents totaling \$215,800, which were signed by these individuals, were improperly authorized. Controls in place by the agency and the Cabinet, which pre-authorize personnel to sign specific documents, appear to have been circumvented.

Proper internal controls dictate that only appropriate, pre-authorized agency personnel review and authorize expenditure and receipt documents. Also, WFDC maintains signature cards of agency personnel who are approved to authorize specific documents. It appears that this procedure was not followed.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating To Internal Controls And/Or Compliance(Continued)

FINDING 98-WFDC-2: The Workforce Development Cabinet Should Develop Controls To Ensure That Only Authorized Personnel Review And Approve Pay-In Vouchers (Continued)

Recommendation

We recommend that the agency develop controls to ensure that only authorized personnel review and sign PIVs and other expenditure/receipt documents. Furthermore, the agency should maintain current signature cards verifying authorization status of proper personnel with the WFDC.

Management's Response and Corrective Action Plan

[One employee's] signature was unauthorized and it was a mistake on staff's part for requesting her signature. We have discussed this with appropriate staff and assure that unauthorized individuals will not sign Pay-In-Vouchers in the future. However, [the other employee's] signature is with proper authorization. [This employee] has a signature card on file with Workforce Development Cabinet. A copy has been provided for auditor verification.

(Note: Brackets indicate the deletion of an employee name from the management's response.)

FINDING 98-WFDC-3: The Workforce Development Cabinet Should Implement Controls To Ensure That Bank Statements Are Reconciled Each Month

State Agency: Division of Unemployment Insurance

During testing of agency's bank reconciliations, the auditor noted that a reconciliation had not been performed since July 1997. The agency had not reconciled the Farmers National Bank statement to the agency's cashbook. A reconciliation was also not performed on the cashbook and STARS 2550 report since February 1998.

The agency may misstate financial reports without an up-to-date reconciliation. This could lead to errors and material misstatements. Without current reconciliations, the agency could be caught off guard with an unforeseen occurrence.

The agency should perform a monthly reconciliation of the bank statements to safeguard their assets. Bank reconciliations are good accounting practices. The auditor and AIC determined that compensating controls were tested for cash going in and out of the bank accounts within the Expenditure and Receipts audit section.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating To Internal Controls And/Or Compliance(Continued)

FINDING 98-WFDC-3: The Workforce Development Cabinet Should Implement Controls To Ensure That Bank Statements Are Reconciled Each Month (Continued)

Recommendation

We recommend that the agency reconcile the statements for every month and for the prior months that was not prepared.

Management's Response and Corrective Action

We recognize the Auditors are recommending additional reconciliations. These procedures will be implemented effective July 1, 1998. We should have all the recommended monthly reconciliations complete by the end of the next audit.

FINDING 98-WFDC-4: The Workforce Development Cabinet Should Ensure That All Write-Offs From Accounts Receivable Are Properly Authorized Prior To Processing

State Agency: Division of Unemployment Insurance

The auditor tested write-offs of Contributions accounts receivable. We determined that one document did not have a signature indicating proper authorization was given prior to the write-off being posted.

Lack of authorization could lead to improper write-offs of receivables. In this instance, \$6,825.94 was written off with no documentation of proper authorization.

Proper internal controls dictate that all write-offs are properly authorized by an agency official.

Recommendation

The auditor recommends that all write-offs from accounts receivable are properly authorized by an agency official prior to processing.

Management's Response and Corrective Action

Attached is a copy of the document in question, with the appropriate signatures. This copy was secured from the employers' microfiche.

Auditor's Response

The auditor reviewed the document as provided by the agency above, and noted that it contained the necessary authorization. The document has been presented in the audit work papers.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating To Internal Controls And/Or Compliance(Continued)

**FINDING 98-WFDC-5: The Workforce Development Cabinet Should Improve Controls
Over Document Maintenance**

State Agency: Division of Unemployment Insurance

The auditor requested 25 files for review. Of the 25 files requested, we were unable to obtain three. Two of the documents had merely been signed out and the agency had out slips to verify their removal and their whereabouts. However, the third file was missing with no documentation verifying controls over its removal.

A lack of controls over documentation could lead to unauthorized persons having access to confidential material. Also, documentation is necessary to verify claims due to the agency. Lost documentation makes it more difficult to verify a claim by the agency.

Proper internal controls dictate that documents are maintained. Also, controls dictate that access to confidential data should be limited and documentation regarding the whereabouts of the information be maintained.

Recommendation

We recommend that Unemployment Insurance follow agency policy in maintaining all documents relating to claims. Also, documentation on the release of files should be maintained by the agency so that missing files can be easily located and so that authorized access can be verified.

Management's Response and Corrective Action

The Department for Employment Services (DES) is aware of the concerns regarding the accessibility of claimant files and is in the process of taking remedial action. Through funds appropriated by the most recent General Assembly and an agreement with the Revenue Cabinet, an imaging solution will be implemented whereby both claimant and employer files will be maintained by the Revenue Cabinet. Original source documents will be processed by Revenue and be made available through a computer system with proper security and access restrictions. This will eliminate the need for on-site storage of paper claimant and employer documents and transfer the responsibility of providing a secure location for documents awaiting imaging and destruction to the Revenue Cabinet. Implementation of this system is planned to begin during late 1999.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating To Internal Controls And/Or Compliance(Continued)

FINDING 98-WFDC-6: The Workforce Development Cabinet Should Review All Closing Package Information For Reasonableness And Implement Corrective Action For Materially Misstated Documents

State Agency: Division of Unemployment Insurance

Controls were not in place to properly estimate and accrue Accounts Payable for Unemployment Insurance (UI) claims that were in effect prior to June 30, 1998. Also, controls did not exist to detect and correct the materially misstated Accounts Payable estimate.

The original AFR-70 for the Division of Unemployment Insurance was not calculated using the appropriate formula for estimating Accounts Payable for UI claims in effect prior to June 30, 1998. As initially reported, the AFR-70 would have understated Accounts Payable by approximately \$48,813,464.00 (\$50,377,164.00 - \$1,5631,700.00).

The amount to be reported for the UI liability, at June 30, 1998, (and future fiscal years), should be the amount calculated as payable for the estimated length of time the client has remaining to draw unemployment benefits. This calculation should meet the requirements of the FASB statement 5 and GASB statement 10, requiring that contingent liability for claims are recognized when information available prior to issuance of the financial statements indicates it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated.

Recommendation

The Division of Fiscal Services, WFDC, should take the responsibility of the closing package. Closing package forms turned in by agency staff should be reviewed for reasonableness and corrective action should be implemented for any forms found likely to be materially misstated.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating To Internal Controls And/Or Compliance(Continued)

FINDING 98-WFDC-6: The Workforce Development Cabinet Should Review All Closing Package Information For Reasonableness And Implement Corrective Action For Materially Misstated Documents (Continued)

Management’s Response and Corrective Action Plan

The Division of Unemployment Insurance prepares their own closing package forms, as an assistance to the Division of Fiscal Services. Fiscal Services does not have access to the necessary information as it relates to accounts receivable and accounts payable in regards to unemployment insurance, since the information is so unique and is maintained in Unemployment Insurance.

The Workforce Development Cabinet makes every effort to ensure that personnel that are preparing the closing package forms are adequately informed of what should be included. Due to the magnitude and diversity of the closing package for the Cabinet, the lack of information regarding unemployment insurance available to Fiscal Services, as well as the time frame for submission of the closing package, Fiscal Services is unable to review all closing package forms before submission to determine reasonableness.

However, Fiscal Services, with the concurrence of Unemployment Insurance, does make adjustments when necessary. The Division of Fiscal Services and the Division of Unemployment Insurance will continue to make improvements for the proper and adequate reporting on the closing package.

Auditor’s Response

We recognize the necessity for the Division of Unemployment Insurance to prepare their own closing package forms, and do not recommend that review procedures entirely duplicate the re-performance of closing package calculations. For clarification, we recommend that the Division of Fiscal Services adequately review the closing packages in order to determine that the reported amounts are *reasonable*. For instance, in this case, a review of the AFR-70 form and comparison with the final AFR-70 from the prior year would have indicated a significant difference and should have indicated to the Division of Fiscal Services that a WFDC reporting amount may be misstated.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating To Internal Controls And/Or Compliance(Continued)

FINDING 98-WFDC-7: The Workforce Development Cabinet Should Ensure That Agency Records Are Properly Reconciled To Statistical Data

State Agency: Division of Unemployment Insurance

The fiscal year 1997 workpapers indicate that the Unemployment Insurance agency accounting records (specifically the cashbooks) were not reconciled to the Employment Services UI statistical reports. A recommendation was made that regular reconciliations be performed. However, reconciliations were still not performed during fiscal year 1998, which indicates a continuing control weakness that has not been corrected.

The auditors were unable to determine whether either set of records contained reliable information since there was no verification or reconciliation of the data. Unreliable statistics and agency records may potentially lead to materially misstated financial reporting without the proper controls in place to verify the accuracy of the information used.

Proper internal control dictates that agency records be reconciled for reliability and verification of data.

Recommendation

The auditor recommends that Unemployment Insurance implement procedures to ensure that agency records are properly reconciled to Employment Services statistical data.

Management's Response and Corrective Action

During the audit for FYE 6/30/97, Auditors recommended the reconciliation of Administrative and Financial Management (A&FM) data with the Unemployment Insurance (UI) Benefit cashbook, but the recommendation was not included in the report. Auditors did receive verbal concurrence the reconciliation would be accomplished from a UI staff member. In the Auditor's working papers, a notation was made reflecting this agreement and a recommendation of a Record of Control Weakness (RCW) if the reconciliation was not accomplished. Months after that agreement, a person was hired to perform the Internal Analyst work which included this reconciliation. Unfortunately, the job training for the Internal Analyst did not include a requirement for reconciliation.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating To Internal Controls And/Or Compliance(Continued)

FINDING 98-WFDC-7: The Workforce Development Cabinet Should Ensure That Agency Records Are Properly Reconciled To Statistical Data

Management's Response and Corrective Action(Continued)

We regret the requirement was not conveyed or discovered until this year's audit, however, we do propose to try to comply with the recommendation in the future. An investigation was concluded this year when the disparity was documented by the Auditors. The disparity noted occurs because of when the monies are recorded. A&FM records monies when they are accrued, but UI records the monies when they are paid. This difference creates a day lag in recording (i.e. December 1, 1998 data is recorded in November, 1998 by A&FM, while UI records the data in December, 1998). A time consuming, sample reconciliation to confirm this theory revealed a \$1,886 accumulated difference for December, 1998 based on \$17,609,115 disbursed, or a 0.01% disparity. This disparity is created because the accrued, computer-generated totals for A&FM data do not include small daily transactions such as outstanding lien fees, repayment of excesses to other states, and check write offs by Treasury.

We understand the optimal need to reconcile this data, however, the man hours to accomplish a monthly reconciliation when added to the workload of all the other mandatory internal Bank/Cabinet reconciliations and State or federal reports exceeds the man-hour capabilities of one person. The creation of an entire, additional position is not justified by this extra need to reconcile between two Divisions in the Department of Employment Services (DES).

Also, the current paper and time lag in transaction processing or recording is the significant factor increasing the number of man-hours required to reconcile and compile reports. In the future, we hope to implement MARS which should reduce the lag in recording, the time required to identify inter-Cabinet transactions, and the man-hours to reconcile or compile current required reports.

Until the MARS system is operational and reliable, we propose to compare this data quarterly and provide A&FM a copy of the UI cashbook monthly for comparison as their workload permits.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating To Internal Controls And/Or Compliance(Continued)

FINDING 98-WFDC-8: The Workforce Development Cabinet Should Consistently Follow Procedures To Ensure Modifications To Unemployment Insurance (UIA/UIB) Programs Are Authorized And Complete

State Agency: Division of Unemployment Insurance

The Workforce Development Cabinet, Management Information Systems (MIS) Branch did not consistently follow its procedures to ensure modifications to Unemployment Insurance (UIA/UIB) programs were authorized and complete. During the period reviewed, the Department of Information Systems (DIS) completed 48 project requests for the various UIA/UIB programs. Our review of the completed projects revealed the following discrepancies:

- Three (3) completed project requests did not have an agency approval sign-off.
- One (1) completed project did not have a request or approval documentation on file with MIS.

The agency is ultimately responsible for all modifications made to its software programs. All documentation concerning a program modification request should be retained in agency program modification files to document the verification that completed requests were actually issued, tested, and approved by the Workforce Development Cabinet.

Recommendation

We recommend all program modification request documentation be retained in the agency files and reviewed to ensure that completed requests are properly issued, tested, and approved by the Workforce Development Cabinet.

Management's Response and Corrective Action Plan

The Technical Services Branch within the Unemployment Insurance Division will maintain a secondary file of programming request documentation, correspondence between the Agency and DIS, and approval of signoff pages. The Management Information Branch within the Division of Administration and Financial Management will provide copies of all requests to DIS and correspondence between the Agencies and the UI Director's Office will provide copies of the original programming requests to the Technical Services Branch. This duplication of effort will ensure proper documentation can be located in the future.

Auditor's Response

In our opinion, we do not request that the agency duplicate its efforts. We recommend that procedures currently in place are consistently applied to ensure documentation is collected and filed for all program modifications.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Control and/or Compliance:

There were no reportable conditions for this section.

Other Matters Relating to Internal Control and/or Compliance:

FINDING 98-WFDC-9: The Workforce Development Cabinet Should Properly Review Federal Reports And Supporting Documentation For Accuracy (ETA 581)

State Agency: Division of Unemployment Insurance
Federal Program: CFDA 17.225 Unemployment Insurance
Federal Agency: U.S. Department of Labor
Compliance Area: Reporting
Amount of Questioned Costs: None

During testing of all quarterly ETA 581 “Contributions Operations” reports, the auditor discovered a discrepancy in the Contributions Employer Receivable totals. The auditor noted that the totals for Determinable Receivable and Liquidated were incorrect when compared to supporting documentation.

The Contribution Employers Receivable was overstated by \$131,800.38 on the June 30, 1998 quarterly report. This had been a continually increasing error that will eventually become a material error. This indicates a weakness in the internal control structure that should have detected such an error.

Proper internal control dictates that accurate information should be presented when preparing and transmitting the ETA 581, which can be supported by valid backup documentation.

Recommendation

The auditor recommends that the error be investigated by proper personnel and corrected. All discrepancies should be thoroughly investigated before report is transmitted. Proper authorization and supervisory review needs to be implemented to increase controls over reporting.

Management’s Response and Corrective Action Plan

We agree with the finding that the Employer Receivable total reported on the ETA-581 for the quarter cited did not agree with the supporting documentation (computer printout of receivables) and that corrective action is required. The staff person responsible for the corrective action will be the Delinquent Collections Section Supervisor.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating to Internal Control and/or Compliance(Continued)

FINDING 98-WFDC-9: The Workforce Development Cabinet Should Properly Review Federal Reports And Supporting Documentation For Accuracy (ETA 581) (Continued)

Management’s Response and Corrective Action Plan(Continued)

This discrepancy between the reported total and the supporting documentation represented manual adjustments required to correct erroneous transaction, however, for the cited quarter only a “lump sum” adjustment was made without supporting detail. In the future, if manual adjustment is required to balance the receivables printout, a record will be made of the specific corrections and this will be retained as part of the supporting documentation for this portion of the ETA-581. This will also serve to identify the causes of the errors to tax management for corrective action to reduce as much as possible the future incident of errors in the receivables report.

Based on the nature of the error detected, a review of the mainframe program which generated the quarterly receivables report will also be made if necessary to ensure that no programming logic errors are responsible for any discrepancies.

The Division of Unemployment Insurance has just implemented a new employer assessment, and the processing of the first tax reports including this assessment will result in many thousand additional billings to employers during the coming weeks. This additional workload will limit the availability of staff to undertake the necessary corrective action within the current quarter. For this reason, we commit that the described corrective action will be completed within the next six months, i.e., to be effective not later than the ETA –581 report submitted for the 3rd Quarter 1999 tax activities.

FINDING 98-WFDC-10: The Workforce Development Cabinet Should Properly Review Federal Reports And Supporting Documentation For Accuracy (ETA 2112)

State Agency: Division of Unemployment Insurance
Federal Program: CFDA 17.225 Unemployment Insurance
Federal Agency: U.S. Department of Labor
Compliance Area: Reporting
Amount of Questioned Costs: None

During testing of quarterly ETA 2112 “UI Financial Transaction Summary” reports, the auditor discovered a discrepancy in the Clearing Account column for the November 1997 report. The totals within this Clearing Account column were incorrect when compared to supporting documentation.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating to Internal Control and/or Compliance(Continued)

FINDING 98-WFDC-10: The Workforce Development Cabinet Should Properly Review Federal Reports And Supporting Documentation For Accuracy (ETA 2112) (Continued)

This report has an overstatement in the amount of \$20,632,157.09 that has been increasing over time. This has caused all reports following to be incorrect and will continue to be unless corrected. This indicates a weakness in the internal control structure that should have detected this error.

Proper internal controls dictate that reports contain accurate information supported by valid backup documentation. Proper authorization and review should be performed on the ETA 2112 prior to transmission.

Recommendation

The auditor recommends that the error and all previous reports be corrected. All discrepancies should be thoroughly investigated before transmission. Proper authorization and supervisory review needs to be implemented to increase controls over reporting. This increasing control should be in place to eliminate such overstatements in the future.

Management's Response and Corrective Action Plan

During the audit for FYE 06/30/98, Auditors identified during testing of quarterly ETA 2112 "UI Financial Transaction Summary" reports, a discrepancy in the Clearing Account column for the November 1997 report. The balance of the Clearing Account column was incorrect when compared to supporting documentation.

Before the audit, this discrepancy had been identified and coordination was ongoing during the audit to determine the best method for correcting the discrepancy in the data. Discussions with report specialists in the Southeast Region and Department of Labor (DOL), Washington, DC, concluded we should simply report under "Other, line 46" a one-time disbursement of \$20,632,157.09 to realign the February, ETA 2112 report balance with the February, Tax Cashbook balance. This was accomplished on April 7, 1999 and submitted to the DOL with an explanation in the February 1999 ETA 2112 report.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating to Internal Control and/or Compliance(Continued)

FINDING 98-WFDC-11: The Workforce Development Cabinet Should Implement Controls To Prevent Improper Eligibility Determinations

State Agency: Department of Employment Services

Federal Program: CFDA 17.246 Employment and Training Assistance (Dislocated Workers)

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Office of Training and Re-Employment (WFDC)

Compliance Area: Eligibility

Amount of Questioned Costs: None

During the FY 98 audit, we determined that the Department of Employment Services (DES) back dated Title III eligibility documentation for a National Reserve Grant (Apparel) grant. This grant requires that participants be enrolled in both Jobs Training Partnership Act (JTPA) and in the Trade Adjustment Assistance (TAA) programs. It appears that participants were awarded funds for a period prior to the actual date of their JTPA Title III eligibility certification.

The March 31, 1998 National Reserve Grant Quarterly Report indicates that up to 362 individuals enrolled in NAFTA-TAA had not been JTPA Title III certified at the beginning of the grant availability period. By awarding National Reserve Grant (NRG) funding for dates prior to JTPA certification for these individuals, DES failed to comply with the grant agreement and the policy of their oversight agency, Office of Training and Re-Employment.

The NRG award notification letter from DOL grant officer James C. De Luca states “the grant award is for the purpose of serving dislocated apparel industry workers enrolled in both Trade Adjustment Assistance or NAFTA-TAA and JTPA Title III programs . . . and the participants under this project will be concurrently enrolled in Title III and TAA.”

OTR Action Memorandum #541 dated February 19, 1998 states, “For all new applicants, the date they [participants] are certified for JTPA Title III is the earliest date the DWP-20A can be completed for services to begin.”

Also, proper internal control dictates that participants cannot receive funds from a federal program for a period prior to the date they are properly certified eligible unless regulations stipulate such procedures.

Recommendation

We recommend that DES implement procedures to prevent future noncompliances resulting from improper eligibility determination for federal awards. We also recommend that DES implement procedures to ensure that all employees involved in eligibility determinations are properly familiarized with grant requirements.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating to Internal Control and/or Compliance(Continued)

FINDING 98-WFDC-11: The Workforce Development Cabinet Should Implement Controls To Prevent Improper Eligibility Determinations (Continued)

Management's Response and Corrective Action Plan

The Office of Training and Re-Employment (OTR) wrote the U.S. Department of Labor (DOL) to seek guidance on this issue. In response to OTR's inquiries the DOL stated as follows:

The Department would support – in this one instance – the State's determination to use Title III NRA funds to provide individualized assistance to the dislocated workers subsequent to the grant award date. This is contingent upon the workers having been eligible for trade benefits at the time the Title III support was provided and that such workers were subsequently determined to meet all of the requirements of JTPA Title III as of the date the payments were made. In other words, even if the JTPA paperwork had not been completed, such determination would include the requirement that workers were, in fact, eligible dislocated workers on the date the payments were first made.

A copy of the DOL grand administrator's letter dated April 19, 1999, has been provided.

In accordance with the DOL's guidance the Department for Employment Services (DES) has verified and documented that each worker that received funds under the Appeal Grant was eligible for trade benefits at the time the Title III support was provided and that such workers did, in fact, meet all of the requirements of JTPA Title III as of the date the payments were made.

The situation involving this grant was a unique, one-time occurrence. It is not the normal policy or practice of DES to award funds prior to the date of eligibility certification. DES believes that proper procedures are in place to ensure that employees involved in eligibility determinations are properly familiar with grant procedures, including eligibility requirements. DES will continue to implement procedures that will preclude similar situations in the future. However, this situation was unique in that, the official notification by the USDOL as to the grant award was not received until 2/13/98, retroactive to 2/10/98.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating to Internal Control and/or Compliance(Continued)

FINDING 98-WFDC-11: The Workforce Development Cabinet Should Implement Controls To Prevent Improper Eligibility Determinations (Continued)

Management's Response and Corrective Action Plan(Continued)

The project was funded as a joint effort between the Trade Act and JTPA. The participants in question were current Trade Act participants and under eligible JTPA dislocated worker guidelines. To deny TAA funded participants commuting assistance because JTPA paperwork was incomplete would cause undo harm. However, before a final decision was made to complete JTPA forms effective 2/10/98, the Department submitted the facts of the case to the UI Appeals Branch since they would be responsible for conducting a formal hearing, under the JTPA grievance system, if commuting assistance payments back to 2/10/98 were denied. Their ruling that participants should not be penalized was the basis for our decision.

Auditor's Response

The focus of our recommendation was for the agency to implement controls to prevent future noncompliances and to properly train staff on the JTPA grant requirements relating to eligibility. In this response, the agency appears to indicate that controls are in place. Our finding indicated that although they may have existed, controls were circumvented and should be strengthened by the agency. Furthermore, our review indicates that the agency was incorrect in their assumption that the UI Appeals Branch would be responsible for conducting a formal hearing under the JTPA grievance system. The Office of Training and Re-Employment is the state oversight agency for JTPA and has the responsibility for administering grievance procedures for JTPA Title III. In our opinion, the UI Appeals Branch does not appear to have jurisdiction to make decisions relating to the JTPA grant requirements in this situation.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating to Internal Control and/or Compliance(Continued)

FINDING 98-WFDC-12: The Workforce Development Cabinet Should Implement Controls To Ensure That All Subrecipient Monitoring Reports Are Issued Timely

State Agency: Office of Training and Re-Employment

Federal Program: CFDA 17.250 – JTPA\ CFDA 17.246 Employment and Training Assistance
(Dislocated Workers)

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Office of Training and Re-Employment

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

During testing of subrecipient monitoring, the auditor noted several incidences in which the monitoring reports were not issued on a timely basis. The timeliness of reports constitutes a control weakness and it violates the Office of Training and Re-Employment policies regarding monitoring and reporting.

We found three incidences in which preliminary reports were not issued within sixty days of the monitoring visit. The preliminary reports, which were found not to be timely, included the Title II A/C financial monitoring for Purchase/Pennyrile SDA, Title II A/C and Title III financial monitoring for Louisville/Jefferson and NCKC SDA (combined report), and the Title II A/C financial monitoring report for Barren River SDA.

The auditor also discovered 10 incidences in which initial determinations were not issued within thirty days of the receipt of the SSG/SDA responses to the preliminary determination. The financial monitoring initial determinations which were found not to be timely included those reports for Purchase/Pennyrile SDA, Barren River SDA, Ashland SSG, Barren River SSG, Covington SSG, Elizabethtown SSG, Hopkinsville SSG, Lexington SSG, Somerset SSG, and Louisville/Jefferson County SDA.

The auditor determined that one final determination was not issued on a timely basis. We found that the programmatic monitoring final determination for Purchase/Pennyrile was not issued within thirty days of receipt of the SDA's response to the initial determination.

The federal regulations for JTPA require monitoring of subrecipients. Specific monitoring policies are to be set by the monitoring agency. The Office of Training and Re-Employment has determined the internal policies regarding the timing of monitoring site visits, issuance of reports, and guidelines for response deadlines in order to comply with the federal regulations. These policies have been outlined in Information Memo #496 dated December 1, 1995. The auditor has determined that the above-mentioned exceptions are in violation of this Office of Training and Re-Employment policy.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating to Internal Control and/or Compliance(Continued)

**FINDING 98-WFDC-12: The Workforce Development Cabinet Should Implement Controls To Ensure That All Subrecipient Monitoring Reports Are Issued Timely
(Continued)**

Recommendation

The auditor recommends that the Office of Training and Re-Employment implement procedures to ensure that all monitoring reports are issued in a timely manner.

Management's Response and Corrective Action Plan

We do not disagree with the auditor's finding and recommendation. Preliminary reports, initial and final determinations should be issued on a timely basis.

In reference to the specific reports the auditor listed as issued untimely, monitors state they were waiting on SDA/SSG to submit additional information or documentation in several cases; a second on-site visit was required at an SDA; and in one case a meeting of SDA representatives from two Area Development Districts and OTR staff was required after the on-site visit, but prior to issuance of the report.

Corrective steps taken are:

- 1. SDAs/SSGs are to be given a date certain for additional information/documentation to be submitted by the monitor;*
- 2. Each monitor has been instructed to set up a tickler file for responses due from SDAs/SSGs and to issue the form letter used to notify the SDA/SSG of a past due response. A copy of this letter is to be filed in the SDA/SSG file. The tickler file will also assist the monitor in tracking deadlines on reports they are to issue.*
- 3. In the case of the sixty day requirement for issuing reports, the monitors have agreed internally to set an unofficial branch goal of 30 days for issuance.*

Each monitor is responsible for meeting deadlines on reports they issue. The branch manager is responsible for follow-up with monitors on maintenance of tickler files and meeting deadlines. We expect to see immediate improvement and correction.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating to Internal Control and/or Compliance(Continued)

FINDING 98-WFDC-13: The Workforce Development Cabinet Should Properly Review Federal Reports And Supporting Documentation For Accuracy

State Agency: Office of Training and Re-Employment

Federal Program: CFDA 17.250 – JTPA\ CFDA 17.246 CFDA 17.246 Employment and Training Assistance (Dislocated Workers)

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Office of Training and Re-Employment

Compliance Area: Reporting Requirements

Amount of Questioned Costs: None

During testing of federal reporting, the auditor noted several incidences in which the federal reports and backup documentation were not mathematically correct. Since the mathematical errors were not detected during the review process, the errors led to inaccurate federal reports and indicate that a control weakness exists.

We found one incidence in which the federal report itself had a mathematical error. This error occurred on the JTPA Title II Quarterly Status Report for PY 1996. The error caused the total SDA availability to be understated.

The auditor also discovered three incidences in which the federal report backup documentation was mathematically incorrect. Two of these errors occurred in the backup documentation for the PY 1997 JTPA Annual Service Delivery Report, while one such error occurred in the backup documentation for the quarter ending December 31, 1997 Worker Adjusted Formula Financial Report. All three of these errors had direct effects on the corresponding federal reports.

Proper internal controls dictate that federal reports be prepared using accurate and valid documents.

Recommendation

The auditor recommends that the Office of Training and Re-Employment implement procedures to ensure that all federal reports and backup documentation for these reports be adequately reviewed to detect mathematical errors and inaccurate reporting prior to their submission.

Management's Response and Corrective Action Plan

The Office of Training and Re-Employment agrees with the audit finding. It is felt that the errors occurred due to the fact that OTR was understaffed and the financial staff person was new to the position. However, additional staff has been hired to alleviate some of the workload and provide a means to review and proof for mathematical errors.

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating to Internal Control and/or Compliance(Continued)

FINDING 98-WFDC-14: The Workforce Development Cabinet Should Ensure That Monthly Cash Reconciliations Can Be Verified Through Supporting Documentation

State Agency: Office of Training and Re-Employment

Federal Program: CFDA 17.250 – JTPA\ CFDA 17.246 17.246 Employment and Training Assistance (Dislocated Workers)

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Office of Training and Re-Employment

Compliance Area: Reporting Requirements

Amount of Questioned Costs: None

During testing of SDA Monthly Cash Reconciliations, the auditor noted that the reported reconciliation amounts did not agree to OTR records. This error was detected by OTR, but was not corrected; therefore, a control weakness exists in the reconciliation process.

Due to the lack of reconciliation on the current months expenditures for Lincoln Trail SDA (August 1997), the amount of the wire transfer balance is incorrect and, in turn, the current cash balance is incorrect; therefore, the Monthly Cash Reconciliation does not accurately “reconcile” to the agency’s records.

Proper internal control dictates that agency records be reconciled for reliability and verification of data.

Recommendation

The auditor recommends that the Office of Training and Re-Employment implement procedures to ensure that the Monthly Cash Reconciliations reflect correct expenditures and cash needs, and can be verified through supporting documentation.

Management’s Response and Corrective Action Plan

The Office of Training and Re-Employment agrees to implement procedures to ensure that when corrections are noted on the monthly invoice/cash reconciliation that notations will be made on the invoice to document the fact that the SDA has been notified of the correction or the fact that a discrepancy was found on the monthly invoice. In the case in question, the SDA provides cash information which is not required of the SDAs. As will all of the monthly invoices, OTR has no assurances that the wire transfer balances are correct and relies on the fact that the agency must keep backup documentation at their agency for review by OTR monitors

**WORKFORCE DEVELOPMENT CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Other Matters Relating to Internal Control and/or Compliance(Continued)

FINDING 98-WFDC-15: The Workforce Development Cabinet Should Implement Controls To Ensure That All Federal Reports Are Properly Authorized

State Agency: Office of Training and Re-Employment

Federal Program: CFDA 17.250 – JTPA\ CFDA 17.246 17.246 Employment and
Training Assistance (Dislocated Workers)

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Office of Training and Re-Employment

Compliance Area: Reporting Requirements

Amount of Questioned Costs: None

During testing of federal reporting, the auditor noted several incidences in which the signatures on the federal reports appeared different than the actual signature of the authorized person(s). After further inquiry, the signature was found to be that of another staff member who was authorized to sign reports; however, the individual did not sign their own name. This practice indicates that a control weakness exists.

We found four incidences in which the signature on federal reports appeared to have been made by someone other than the person whose name appeared. All four incidences occurred on *Dislocated Worker Special Project Reports* (DWSPR). We determined through inquiry that the individual who was signing the federal report is an authorized person, but did not sign her own name. Federal reports should be signed by authorized agency personnel using their own signatures. This practice would make sure that controls exist that reports can be traced back to the person who approved them; otherwise, the potential exists for submission of unauthorized federal reports.

Proper internal controls dictate that federal reports be properly authorized. This includes ensuring that authorized personnel sign reports using their own name for verification purposes.

Recommendation

The auditor recommends that the Office of Training and Re-Employment implement procedures to ensure that all federal reports are properly authorized.

Management's Response and Corrective Action Plan

The Office of Training and Re-Employment (OTR) agrees that in some cases, in the absence of the Executive Director, the Staff Assistant has signed the Director's name to documents. The Staff Assistant does have the authority to approve and/or sign any correspondence or issuance that is sent out from the Office of Training and Re-Employment. In the future, the Staff Assistant or any other person with signatory authority in the Office of Training and Re-Employment will sign his/her name when approving or signing any correspondence or issuances for the Office of Training and Re-Employment.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**WORKFORCE DEVELOPMENT CABINET
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1998**

Reportable Conditions

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<i>(1) Audit findings that have been fully corrected:</i>					
There are no findings to report in this category.					
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 93	N/A	The Cabinet For Workforce Development Had Questioned Costs of \$372,383 For Fiscal Year Ended June 30, 1993.	Multiple Programs	\$372,383	The Department of Employment Services resolved \$73,749 during the FY 97 audit and an additional \$39,254 during the FY 98 audit. The agency agreed to resolve the remaining costs during FY 2000.
FY 97				298,634	
FY 98				259,380	
FY 97	97-WFDC-53	The Cabinet For Workforce Development Should Ensure The Job Training Partnership Act (JTPA) Complies With Earmarking Requirements.	17.246	42,039	The agency did not resolve this issue. The FY 98 response contended that the salary charges in question were correctly categorized. We disagree with the response, and the issue remains unresolved.
FY 98				60,546	
Total Questioned Costs				\$102,585	

(3) Corrective action taken is significantly different from corrective action previously reported:

There are no findings to report in this category.

(4) Audit finding no longer valid:

There are no findings to report in this category.

**WORKFORCE DEVELOPMENT CABINET
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

Other Matter Comments

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<i>(1) Audit findings that have been fully corrected:</i>					
FY 97	97-WFDC-1	The Cabinet For Workforce Development Should Implement Controls To Ensure Unemployment Insurance IB-6 Billings Are Generated And Mailed Within The Required Time Period.	N/A	0	Resolved in FY 98.
FY 97	97-WFDC-2	The Cabinet For Workforce Development Should Ensure Closing Package Forms AFR-30 And AFR-32 Includes Deferred Revenue Calculations For Unemployment Insurance.	N/A	0	Resolved in FY 98.
FY 97	97-WFDC-3	The Cabinet For Workforce Development Should Comply With JTPA By Limiting Title II-C Administration Costs To 20% Of Total Title II-C Funds Allocated.	17.250	\$4,000	Resolved in FY 98.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 97	97-WFDC-4	The Cabinet For Workforce Development Should Ensure the Security of Confidential Documents.	N/A	0	No changes in physical security measures were made during FY 98.
FY 97	97-WFDC-5	The Cabinet For Workforce Development Should Develop a Formal Disaster Recovery Plan.	N/A	0	A complete Disaster Recovery Plan was not available during FY 98.

**WORKFORCE DEVELOPMENT CABINET
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

Other Matter Comments

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
FY 97 FY 98	97-WFDC-6	The Cabinet For Workforce Development Should Implement Controls To Insure Authorized Personnel Review And Approve Federal Reports.	17.225	0	The agency implemented controls that were in effect during the second half of FY 98. Therefore, the weakness was partially corrected for the year.
FY 96 FY 97 FY 98	96-WFDC-1	The Cabinet For Workforce Development Should Comply With JTPA Financial Management Guide and OMB Circular A-133 [A-128 For FY 96] By Properly Monitoring And Resolving Subrecipient Audit Findings.	17.250	0	A repeat finding was issued during FY 98 because the agency had not implemented its corrective action plan from the previous year and the weakness still existed. The FY 98 corrective action plan was submitted, which is similar to the plans submitted in previous years.

3) Corrective action taken is significantly different from corrective action previously reported:

There are no findings to report in this category.

(4) Audit finding no longer valid:

There are no findings to report in this category.

