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Maine Office of the State Auditor

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Summary
The Office of the State Auditor performed a limited procedures engagement relating to the Workforce Improvement Act (WIA) Settlement Agreement reached on April 1, 2013. As part of the Settlement Agreement, the U.S. Department of Labor (US DOL) requested that the Office of the State Auditor conduct a review of two specific areas identified by the Maine Department of Labor (ME DOL) as payment for a portion of the debt owed. The first area resulted in ME DOL’s repayment of $232,000. In this instance, ME DOL identified General Fund appropriations that were available to absorb costs normally charged to the federal 10% funds. The second area resulted in ME DOL’s repayment of $400,293. In this instance, ME DOL identified instances where the State had already returned funds to the Grant Officer through reduced drawdowns for other allowable expenditures. Per the agreement, the U.S. DOL requested that the Office of the State Auditor review the transactions associated with these “paybacks” to verify that the ME DOL was correct in their determination that these amounts were in fact paid back to the Grant Officer.

Based on our procedures, we believe that the ME DOL made the accounting entries needed to accomplish the U.S. DOL objectives. However, we also believe that part of the writing in the Settlement Agreement may have been unintentionally misleading to some readers.

Background
As a result of a financial review conducted by staff from the US DOL, Regional Office I – Boston, of various U.S. DOL Employment and Training Administration (ETA) grants awarded to the ME DOL, it was determined that there were excess cash balances reported on the ME DOL’s ETA 9130 financial reports for quarter ending December 31, 2010. A final settlement amount of $1,280,109 owed to the U.S. DOL was established.

Procedures
We performed the following procedures:
- gained an understanding of the WIA Settlement process,
- obtained a clear understanding of the auditee’s expectations of us in performing this engagement,
- reviewed the journals and determined whether or not the auditee successfully returned the amounts to the Grant Officer as indicated in bullets #3 and #4 of the Settlement Agreement, and
- considered the need to apply one or more additional procedures.

Results
As a result of our review, we were only able to verify three instances where returned funds resulted in reduced draws:
- As a result of the transfer of $232K in expenditures to the State’s general fund, approximately $92K in expenditures were offset by returned funds, resulting in a reduction in the draw amount on 7/10/2012.
- As a result of the November 2012 analysis performed by Denise Potvin, approximately $200K in expenditures were offset by returned funds, resulting in a reduction in the draw amount on 12/26/2012.
- As a result of the Direct Delivery payment review, approximately $58K in expenditures were offset by returned funds, resulting in a reduction in the draw amount on 3/12/2013.
However, we were also able to perform a reconciliation of the WIA program’s expenditures to draws to verify that the State had expenditures to support the draws for Grant Years 2008-2011 and the resulting excess cash issue was reflected in Grant Year 2012. Based on discussions with Phil Bombardier at U.S. DOL, this was understood and, according to him, is the only way to correct the excess cash issue. The remaining excess cash on hand will be "paid back" through a reduction of the Rapid Response funds for 2012 and 2013, as well as the $117K check sent by the State to the U.S. DOL.

Also, based on our review of the compliance areas for allowability, earmarking and reporting, the State appears to be in compliance with respect to the $232K in transfers of expenditures to the General Fund.

Conclusion and Recommendation(s)
We recommend the following:

- ME DOL continue their ongoing refinement of the cash management reconciliation process.
- ME DOL continue their efforts to separate the various DOL programs into unique appropriations, thus allowing for more transparent program operations.
- If future cash management issues should arise, ME DOL should attempt, whenever practicable, to separate the return of funds from other required daily operational transactions.

The items mentioned above are suggestions to assist the ME DOL in strengthening the controls around their cash management procedures. We thank the U.S. DOL and ME DOL for their important public service.