

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

Financial and Performance Audit of
City of Gary
Welfare-to-Work Competitive Grant
For the Period
January 4, 1999 through March 31, 2001

Audit Report No. 05-02-001-03-386
Date Issued: March 18, 2002

Table of Contents

	<u>Page</u>
Acronyms	ii
Executive Summary	iii
Background	1
Objectives, Scope and Methodology	3
Findings and Recommendations	5
1. Excessive, Unsupported, and Unallowable Service Provider Claims	5
2. Other Unallowable Claims	19
3. Inadequate Participant Eligibility and Documentation	22
4. Noncompliance With Grant Requirements	25
Appendix A - Grantee Response	29

Acronyms

AFDC	Aid to Families with Dependent Children
CFR	Code of Federal Regulations
CGFP	City of Gary Futures Program
DOL	Department of Labor
ETA	Employment and Training Administration
FSSA	Indiana Family and Social Services Administration
GPTC	Gary Public Transportation Corporation
MCA	Medical Career Assessment
MIS	Management Information System
NGI	New Generations, Inc.
OJT	On-the-Job Training
OMB	Office of Management and Budget
QFSR	Quarterly Financial Status Report
TANF	Temporary Assistance for Needy Families
WtW	Welfare-to-Work
YFCR	Youth Family Community Renewal

Executive Summary

The Office of Inspector General conducted a financial and performance audit of the Welfare-to-Work (WtW) Competitive Grant awarded to the City of Gary. Our audit objectives were to determine the allowability of selected claimed costs, the eligibility of selected participants, and whether the grantee is in compliance with the major requirements of the grant.

The City of Gary reported expenditures of \$1,254,637 in support of 235 participants for the period January 4, 1999 through March 31, 2001. We tested a judgmental sample of staff salaries and fringe benefits, as well as administrative, program, and service provider costs, totaling \$360,299. We also tested 60 participants=program eligibility and reviewed the grantee's compliance with the grant requirements and principal criteria. However, our selective testing was not designed to express an opinion on the City of Gary's Quarterly Financial Status Report (QFSR).

We found:

- excessive, unsupported and unallowable service provider claims resulting in questioned costs of \$130,205;
- other unallowable costs totaling \$3,749;
- seven ineligible participants resulting in questioned costs of \$2,808, and two misclassified participants; and
- noncompliance with grant requirements in two instances.

We recommend that the Assistant Secretary for Employment and Training:

- recover questioned costs of \$133,013;
- direct the City of Gary to improve the contract administration system for procuring WtW participant services;
- verify that the City of Gary has reduced future QFSR expenditures by \$3,749 resulting from unallowable costs;
- direct the City of Gary and/or the City of Gary Futures Program (CGFP) to:
 - ensure that future fringe benefits claims are billed at the proper rate;
 - transfer \$6,852 from the 70 percent category to the 30 percent category expenditure accounts for the misclassified participants;

- correct the QFSR and the management information system (MIS) to reflect seven ineligible participants and the proper classification for two misclassified participants; and
- comply with the grant requirements by maintaining a MIS to track participants, correcting the QFSR and MIS to reflect the proper classification of all undesignated participants, completing a system to track expenditures by category, and negotiating profit as a separate element of cost during the procurement of WtW service providers.

City of Gary officials generally concurred with our recommendations but took exception to our recommendation to improve the contract administration system for procuring WtW participant services. The response has been incorporated in the report with our comments and is also included in its entirety as Appendix A.

Background

Objective of Welfare-to-Work

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 established the Temporary Assistance for Needy Families (TANF) program. The TANF provisions substantially changed the nation's welfare system from one in which cash assistance was provided on an entitlement basis to a system in which the primary focus is on moving welfare recipients to work and promoting family responsibility, accountability and self-sufficiency. This is known as the "work first" objective.

Recognizing that individuals in TANF may need additional assistance to obtain lasting jobs and become self-sufficient, the Balanced Budget Act of 1997 amended certain TANF provisions and provided for WtW grants to states and local communities for transitional employment assistance, which moves hard-to-employ TANF welfare recipients into unsubsidized jobs and economic self-sufficiency.

The Welfare-to-Work and Child Support Amendments of 1999 allow grantees to more effectively serve both long-term welfare recipients and noncustodial parents of low-income children.

Of the \$3 billion budgeted for the WtW program in Fiscal Years 1998 and 1999, \$711.5 million was designated for award through competitive grants to local communities.

City of Gary's Competitive Grant

On January 4, 1999, the City of Gary received a 30-month WtW competitive grant in the amount of \$5,000,000. The period of performance was January 4, 1999 through June 30, 2001. The first grant modification, effective October 12, 2000, realigned grant budget line items and increased the consultant fee to \$450 a day. Effective June 15, 2001, the second grant modification extended the grant period through June 30, 2003; and incorporated a revised statement of work, revised grant budget, and minor changes to the Grant Agreement, Part IV-Special Conditions. No additional funding was included in either grant modification.

The grant application's service strategy incorporates numerous job readiness and support services in order to provide a continuum of care to ensure that a minimum of 400 TANF eligible recipients make a smooth and effective transition to employment and long-term retention.

Principal Criteria

In addition to the provisions of the Balanced Budget Act of 1997, the U.S. Department of Labor (DOL) issued regulations found in 20 CFR 645. Interim Regulations were issued November 18, 1997. Final Regulations were issued on January 11, 2001, and became effective April 13, 2001. Also, on April 13, 2001, a new Interim Final Rule became effective, implementing the Welfare-to-Work and Child Support Amendments of 1999. This resulted in changes in the participant eligibility requirements for competitive grants, effective January 1, 2000.

As a municipality, the City of Gary is required to follow general administrative requirements contained in Office of Management and Budget (OMB) Circular A-102, which is codified in DOL regulations at 29 CFR 97, and OMB Circular A-87 requirements for determining the allowability of costs.

Postaward Survey In September 1999, we issued a report (Number 05-99-020-03-386) on the results of a postaward survey of 12 second-round competitive grantees. The City of Gary was included in that review. During this audit, we followed up on our concerns identified in the postaward survey. In general, based on our audit work, these concerns were adequately addressed, except as noted in Finding Numbers 3 and 4.

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This report is intended solely for the information and use of the management of the U.S. Department of Labor, the Employment and Training Administration (ETA) and the City of Gary, and is not intended to be and should not be used by anyone other than these specified parties.

Objectives, Scope and Methodology

Objectives	The objectives of this financial and performance audit were to determine the allowability of selected claimed costs, the eligibility of selected participants, and whether the grantee is in compliance with the major requirements of the WtW grant.
Audit Scope and Methodology	Our audit included financial and program activities that occurred from January 4, 1999 through March 31, 2001. Our review of management controls was limited to financial management at the grantee level. We did not audit performance measurements at CGFP.

As part of our audit planning, we conducted a vulnerability assessment of the financial management, participant eligibility, cost allocation and procurement processes to determine if we could limit the audit procedures in any of these areas. As a result of the vulnerability assessment, we designed our sampling methodology. Our testing used judgmental sampling. We are not intending that our testing is a representative sample, nor are we projecting to the entire universe of financial transactions or participants. In addition, our selective testing was not designed to express an opinion on the City of Gary's QFSR.

Of the \$1,254,637 claimed costs reported on the QFSR as of March 31, 2001, we selected 96 transactions for audit totaling \$360,299. These transactions included staff salaries and fringe benefits, administrative expenditures, program costs, and service provider costs.

Of the 235 participants reported on the QFSR as of March 31, 2001, we reviewed the CGFP's MIS and determined the adjusted universe of WtW participants served was 201. We then selected 60 of the 201 participants to test eligibility as of when each participant enrolled in the WtW program, because the MIS did not capture each participant's eligibility determination date. While reviewing each selected participant's case file, we categorized each within two groups of participants B those enrolled before January 1, 2000, and those enrolled from January 1, 2000 through March 31, 2001. This was necessary because of a change in participant eligibility requirements, effective January 1, 2000. We determined that 19 participants enrolled before January 1, 2000, and 41 participants enrolled from January 1, 2000 through March 31, 2001.

As part of our eligibility determination, we reviewed information provided by the Indiana Family

and Social Services Administration (FSSA) to determine whether certain participants met TANF and/or Aid to Families with Dependent Children (AFDC) cash assistance requirements as of each participant's WtW eligibility determination date.

During our audit, we reviewed compliance with the grant requirements and principal criteria cited on page 2.

We interviewed City of Gary, CGFP, and service provider officials. We also obtained and reviewed grantee policies and procedures, participant files, accounting records, and source documentation, such as contracts, service provider agreements, invoices and payrolls to support claimed costs.

We conducted our audit in accordance with *Government Auditing Standards* for performance audits, issued by the Comptroller General of the United States. We conducted fieldwork from May 16, 2001 to August 31, 2001, at the offices of the CGFP, the City of Gary Finance Department, and three CGFP service providers.

Findings and Recommendations

1. Excessive, Unsupported, and Unallowable Service Provider Claims

Of the \$1,254,637 claimed costs reported on the QFSR as of March 31, 2001, we selected 96 transactions for audit totaling \$360,299. The results of the audit are presented here and in Finding No. 2.

The CGFP contracted with several organizations for the delivery of WTW participant services such as counseling, transportation, on-the-job training (OJT), and life skills. We identified: (A)

Excessive, unsupported, or unallowable claims resulted in questioned costs of \$130,205

multiple or excessive claims for participant services; (B) unsupported claims for participant transportation, medical career assessments (MCAs), and supplies; (C) unsupported claims for OJT instruction; (D) unallowable placement costs; and (E) provider services not included within service provider agreements. These claims did

not comply with OMB Circular A-122, 20 CFR

Part 645, 29 CFR Parts 95 and 97, and service provider agreements. Consequently, we questioned a total of \$130,205 as detailed in Parts A through E below. We attribute the cause of these questioned costs to the City of Gary's inadequate contract administration system for procuring WtW participant services, as detailed in Part F below.

A. Multiple or Excessive Claims for Participant Services

The CGFP service providers claimed multiple billings for the same participant services, WtW services for unidentified participants, and excessive billings for childcare services, supplies, and placement fees. As a result, we questioned \$50,958. See Table on the next page.

Service Billed	Multiple Claims	Unidentified Participants	Total	Rate	Questioned
Life Skills	69	1	70	\$170.00	\$ 11,900
Job Coaching	69	1	70	\$218.50	15,295
Job Readiness	122	4	126	\$170.00	21,420
Total for Multiple Claims and Unidentified Participants					48,615
Total for Excessive Billings					2,343
TOTAL					\$ 50,958

Multiple Claims

We reviewed all New Generations, Inc. (NGI) claims processed by the CGFP from September 1999 through June 2000. Per the service provider agreement, NGI claimed WtW participant services at the following rates:

- o Life Skills **B** \$170.00 per participant
- o Job Coaching **B** \$218.50 per participant
- o Job Readiness **B** \$170.00 per participant

We determined that Life Skills and Job Coaching were each billed a cumulative total of 69 extra instances for 22 WtW participants. Further, we determined that Job Readiness was billed a cumulative total of 122 extra instances for 35 participants. For example, we found NGI billed one participant’s Job Readiness on eight occasions between September 1999 and April 2000, and Life Skills and Job Coaching on seven occasions between September 1999 and February 2000.

City of Gary officials stated that, by oversight, the NGI service provider agreement only contained the monthly versus total cost for participant services. The officials provided total costs for each service as follows:

- o Life Skills \$1,020 (\$170.00/month for six months)

- Job Readiness \$1,020 (\$170.00/month for six months)
- Job Coaching \$1,311 (\$218.50/month for six months)

The officials also stated the agreement has been corrected which reduces the questioned costs from \$48,615 to \$340 for two participants billed for seven job readiness sessions. The officials indicate the questioned \$340 will be deducted from the next NGI invoice and adjustments will be made to the next QFSR.

We do not accept the City's corrective action in which they modified the NGI agreement in order to reduce questioned costs. This modification resulted in a 600 percent increase in service rates well after the agreement was executed and services were performed. We consider these rate increases unreasonable and excessive. To illustrate, the modified rate of NGI's Job Readiness services is almost 12 times the cost (\$87 per participant) of similar services in the Workforce Development Services agreement and over 3 times the cost (\$325 per participant) of similar services in the Tradewinds Rehabilitation Center agreement. The Life Skills and Job Coaching services are still not defined. We believe the modified rates for these services are unreasonable and excessive, even in the absence of comparable services.

Services for Unidentified Participants

The CGFP paid NGI for services provided to unidentified participants as follows:

- Life Skills and Job Coaching services for one unidentified participant each, included on the December 23, 1999 claim;
- Job Readiness services for two participants not included on the MIS; and
- Job Readiness services for two unidentified participants included on the March 17, 2000 claim.

City of Gary officials provided no response regarding services provided for unidentified participants. We questioned \$48,615 as a result of multiple claims and unidentified participant claims billed by NGI.

Excessive Claims

We questioned a total of \$2,343 as a result of excessive claims from three service providers.

The CGFP paid Youth Family Community Renewal (YFCR) for excessive child care expenses. For the period September 1999 through January 2000, YFCR billed CGFP \$12 a day for a WtW participant's child care services. YFCR claimed duplicate days at the end of one month and the beginning of the next month in addition to holidays when child care services were not provided. We questioned \$144 (12 days at \$12 a day).

The CGFP also paid the Gary Public Transportation Corporation (GPTC) for excessive supplies in support of WtW participants' OJT. GPTC billed the CGFP \$895 for 20 participants' supplies. The Service Provider Agreement allowed for GPTC to serve three WtW participants. Consequently, we questioned a prorated portion (17/20 or 85 percent of the invoice) of these supplies, or \$761.

The CGFP also paid Staff Source \$2,500 for two participants' initial placement fees. Per the service provider agreement, Staff Source may claim \$1,062 for each WtW participant's placement. Because half the placement rate must be withheld pending the participant's 6 months retention in unsubsidized employment, Staff Source was entitled to \$1,062 in support of the placements. Therefore, we questioned \$1,438 (\$2,500 - \$1,062) of excessive placement fees.

City of Gary officials provided no response regarding excessive claims.

In summary, we questioned \$48,615 for multiple claims and services provided to unidentified participants by NGI, and \$2,343 for excessive claims from YFCR, GPTC, and Staff Source, for a total of \$50,958.

B. Unsupported Claims for Participant Transportation, Medical Career Assessments (MCAs), and Supplies

The CGFP service providers claimed \$72,268 of unsupported WtW participant services including transportation, medical career assessments (MCA), and supplies.

Transportation

The CGFP paid GPTC \$38,344 for unsupported WtW participant transportation services. Payments were in support of claimed WtW participant transportation (\$19,362) as well as for administrative oversight (\$18,982).

GPTC claimed \$19,362 for WtW participant transportation in three installments as follows:

- o Claim processed on October 15, 1999 -- \$1,320 (66 round trips at \$20 each);
- o Claim processed on February 25, 2000 -- \$9,021 (10 participants at \$902.07 each); and
- o Claim processed on June 1, 2000 -- \$9,021 (10 participants at \$902.07 each).

No documentation accompanied the first and third transportation claims. Limited documentation accompanied the second claim. However, we were unable to reconcile the provided documentation to the second claim's information.

Per the CGFP-GPTC transportation service provider agreement provided by CGFP, GPTC may claim the following participant rate: \$30.66 per round trip.

Per the CGFP-GPTC transportation service provider agreement provided by GPTC, they may claim the following participant rate: \$1,124.44 per month .

GPTC did not bill their services in accordance with either of these rates. Furthermore, source documentation for specific WtW participants' transportation was not consistently included with claims and was not subsequently provided by GPTC. GPTC provided subsequent documentation that indicates the rate billed in the second and third claim above was derived from their proposed project budget. Because services were not billed in accordance with the agreement and we cannot determine which WtW participants were provided transportation services, we questioned \$19,362.

In addition to the transportation services, GPTC also claimed \$18,982 of administrative oversight costs as follows:

- o Claim processed on February 25, 2000 -- \$3,796 (12 months X \$2,531 a month); and
- o Claim processed on July 14, 2000 -- \$15,186 (6 months X \$2,531 a month)

GPTC provided documentation which indicates administrative costs were built into the rate of both service provider agreements provided by CGFP and GPTC, in addition to the \$902.07 per participant claimed rate.

We cannot ascertain the reasonableness of the administrative claims because these claims were not properly documented and billed. Furthermore, the service provider agreement did not document who, on GPTC's staff, would be responsible for administrative oversight of WtW participant transportation.

City of Gary officials provided copies of transportation claims processed on February 25, 2000 (\$9,021), and June 1, 2000 (\$9,021), and the supporting documentation to verify that the City of Gary was not billed twice for the same period. We do not consider the June 1, 2000 claim to be a duplicate of the February 25, 2000 claim. Rather, it appears that GPTC billed administrative costs separately for these two transportation claims that already included administrative costs. City officials provided us:

- the same documentation during fieldwork to support the claim processed on February 25, 2000; and
- limited documentation to support the other claim.

However, we were unable to reconcile the provided documentation to either claim's information or to the agreement. Consequently, we questioned \$38,344 (\$19,362 + \$18,982) for unsupported and potentially double-billed transportation and related administrative costs.

Medical Career Assessments

The CGFP paid NGI for 61 participants' MCAs as part of claims processed between September 1999 through June 2000, and on November 22, 2000, and March 29, 2001. In accordance with the service provider agreement, NGI claimed \$545 for each MCA. While not defined in the agreement, we were informed the MCA is used for participant placement in medical OJT. Also, the MCA includes the participant's completion of a pre-test, consisting of 20 multiple choice and 8 open-ended questions, as well as an NGI physician's evaluation of each participant's suitability for an appropriate occupation within the medical field. We questioned \$33,245 (61 MCAs X \$545) because

the physician did not document the evaluation of each participant, nor the recommended occupation. We were provided evidence of ungraded participant pre-tests.

City of Gary officials provided copies of 61 MCAs, consisting of the physician's evaluations and graded participant pre-tests. We determined City of Gary officials provided documentation for only 60 participants' MCAs, excluding a participant determined to be ineligible in Finding Number 3A. It appears that this documentation was prepared in response to our draft report, well after the date services were actually performed and billed. During fieldwork, all participant pre-tests were found to be ungraded and an NGI official informed us that the physician's evaluation of each participant was not documented. We were also informed, at that time, that the NGI physician's evaluation was used to determine each participant's suitability for an appropriate occupation within the medical field. However, the physician's evaluations provided do not indicate suitability for a specific medical field. Rather, they indicate whether the participant was ready for OJT, not ready for OJT, or not a good candidate for NGI or the medical career field. We believe that an evaluation after the participant has already been placed in an OJT occupation is meaningless.

Because MCAs are not defined in the CGFP-NGI service provider agreement (see Finding 1F), we are responsible for determining the reasonableness of the documentation provided in support of the billed service. We consider the costs unreasonable because we were not provided with documentation showing how each participant was assessed for placement into specific OJT occupations within the medical career field. As a result, we questioned costs of \$33,245 (61 MCAs X \$545).

Supplies

The CGFP also paid NGI \$679 for six participants' supplies as part of a claim processed by CGFP on September 10, 1999. The service provider agreement required the original itemized invoice to be submitted for reimbursement of supplies. However, an invoice supporting the supplies did not accompany the claim.

29 CFR 95.21(b), *Standards for financial management systems*, states:

Recipients' financial management systems shall provide for the following: . . .

- (7) Accounting records including cost accounting records that are supported by source documentation.

City of Gary officials provided no response regarding unsupported claims for supplies. Consequently, we questioned \$679.

In summary, we questioned \$72,268 of unsupported WtW participant services including transportation (\$38,344), MCAs (\$33,245), and supplies (\$679).

C. Unsupported Claims for OJT Instruction

Per the CGFP-GPTC service provider agreement, GPTC could claim WtW OJT services at the rate of \$10,885.35 per participant. This OJT rate was established in accordance with GPTC's planned budget for serving 20 WtW participants. GPTC claimed OJT services per the following categories:

- participant wages (billed as OJT),
- participant supplies, and
- OJT instruction.

Sufficient evidence was provided to support participant wages. Evidence was also provided to partially support participant supplies (see Finding 1A, Excessive Claims). However, sufficient evidence was not provided to support OJT instruction claims.

The CGFP paid GPTC \$4,260 for OJT instruction billed in two installments. The first installment claimed \$3,654 (\$1,218 for each of three OJT participants), which was processed on October 15, 1999. The second GPTC installment claimed \$606 (\$202 for each of three OJT participants) and was processed on June 1, 2000. The agreement also required original time sheets to be submitted to substantiate reimbursement. The agreement did not specify which GPTC employee(s) would provide the OJT instruction. Time sheets were subsequently provided for the GPTC Director of Operations. However, time sheets were not broken down by time worked in support of administering the OJT instruction, administering the WtW transportation service provider agreement, and other duties as Director of Operations. Payroll records, but not time sheets, were also subsequently provided for a GPTC union instructor.

OMB Circular A-122, Attachment B, Item 7m requires that personnel activity reports (time sheets) be maintained to support payroll charges in support of the grant activity or multiple activities.

29 CFR 95.21(b) states:

Standards for financial management systems, states:

Recipients= financial management systems shall provide for the following: . . .

- (7) Accounting records including cost accounting records that are supported by source documentation.

We cannot ascertain the reasonableness of OJT instruction claims because of a lack of documentation. City of Gary officials stated that they are continuing to gather this information but provided no documentation to substantiate the questioned costs. Accordingly, we questioned the \$4,260 of claimed OJT instruction.

D. Unallowable Placement Costs

The CGFP paid NGI for eight participants= job placements as part of claims processed from January 28 through May 19, 2000. Per the CGFP-NGI service provider agreement, NGI claimed a placement rate of \$536 per participant. The agreement also required that 50 percent of the placement fee be withheld until the participant had been retained on the job for six months. However, NGI billed CGFP for all eight placements in full at initial placement. Furthermore, the only evidence of the placement was a NGI statement that the participant had been placed. We consider this practice to be inadequate as the CGFP should ensure that the NGI obtains documentation from the placement employer of record.

20 CFR 645.230(a)(3) states:

. . . contracts or vouchers for job placement services . . . must . . . require that at least one-half (2) of the payment occur after an eligible individual placed into the workforce has been in the workforce for six (6) months. This provision applies only to placement in unsubsidized jobs. . . .

29 CFR 95.21(b) states:

Standards for financial management systems, states:

Recipients= financial management systems shall provide for the following: . . .

- (7) Accounting records including cost accounting records that are supported by source documentation.

City of Gary officials provided copies of source documentation to substantiate the initial placement fees (50 percent) for seven of these eight placements. Officials also provided documentation to support the retention fee for six months in unsubsidized employment (50 percent) for five of these eight placements.

We questioned \$1,072 for a lack of source documentation to support one claimed placement (\$536), as well as not withholding 50 percent of the placement fee for two other WtW placements (\$268 X 2) until they had been retained in unsubsidized employment for 6 months.

E. Services Not Included in Provider Agreements

The CGFP paid two service providers a total of \$1,647 for services not included in their service provider agreements.

The CGFP paid Howard Van \$897 for participant no-shows and driver waiting periods as part of a claim processed by the CGFP on February 15, 2001. We found 26 instances where Howard Van billed the CGFP for participant no shows/no gos@ and waiting periods ranging from \$5 to \$150. The service provider agreement did not include payment arrangements for participant no-shows/no-gos@ and driver waiting periods.

The CGFP paid Staff Source \$750 in total for five participants= Life Skills training which was not included in the service provider agreement. Furthermore, one of these participants was not included on the CGFP participant MIS.

Consequently, we questioned \$1,647 (\$897 + \$750) resulting from service providers billing for services not approved and stipulated in the service provider agreements.

City of Gary officials provided no response regarding services not included in provider agreements.

F. Inadequate Contract Administration System

While auditing invoices for costs claimed by service providers, we identified what we believe are the causes of the conditions reported in items A through E. We noted that there is no evident segregation of duties in the procurement of WtW service providers, and that the service provider agreements are inadequate.

No Segregation of Duties

No segregation of duties is evident in the procurement of WtW service providers, and potentially other Federally funded program service providers.

The City of Gary procurement policies and procedures, as of August 2001, require formal bids for purchases of an apparatus, supplies, materials, and/or equipment totaling \$75,000 or more and processing through the Purchasing Agency. However, the policies and procedures are silent concerning the procurement of program services, such as WtW.

The CGFP staff members evaluate proposals. Further, the CGFP office maintains the selection and award documentation. While the awarded service provider agreements must also receive the formal approval of two of three City Board of Public Works and Safety members (the Deputy Mayor, the City Controller, and the City Counsel), the documentation of award selection is not always reviewed by this Board or any other official.

Furthermore, we were informed that original service provider agreements are maintained by the Department of Public Works and Safety. However, we were unable to obtain certain original WtW service provider agreements awarded during our audit period.

The procuring of service providers should be performed through an independent unit, similar to the City procedures for procuring goods totaling \$75,000 or more. We recognize that the evaluation of proposals for potential WtW service providers requires the analysis of the CGFP officials. However, an independent unit should be involved with request for proposal development, receipt of proposals, evaluation, award, and custody of official procurement documentation and original service provider agreements/modifications.

We conclude that a material internal control weakness exists due to the lack of segregation of duties for procuring WtW service providers without any review or oversight of the process from an independent unit.

City of Gary officials disagreed with our determination that the City of Gary's contract administration system lacks the necessary segregation of duties. They stated that the CGFP officials follow policies mandated in the City of Gary's Policies and Procedures. They outlined their procurement process, including responsibilities of the CGFP, Law Department, Finance Department, and Board of Public Works and Safety, and stated that the establishment of an additional independent unit would not be economically feasible. Further, the officials responded only the Board of Public Works and Safety maintains possession of the original service provider agreements.

While we agree that other City entities are involved in the execution of the service provider agreements, we disagree that these entities are involved in the procurement of the service providers. The CGFP officials complete the procurement process for service providers and are also the custodian of the official procurement documentation, in addition to administering the WtW program. This is a material internal control weakness until the City has implemented a separation of duties in the procurement of federally-funded services.

Our recommendation does not require an additional independent unit to administer the procurement process. We believe that the City could use the Purchasing Division to oversee the procurement of services and appoint individuals, independent of CGFP, to evaluate the proposals under the direction of the Purchasing Division. The Purchasing Division should be involved with the request for proposal development, receipt of proposals, evaluation, award, and custody of official procurement documentation and original service provider agreements/modifications. This is only one suggested option.

Inadequate Service Provider Agreements

The WtW service provider agreements do not detail:

- what services are included in billable rates;
- the frequency for submitting claims; and
- what source documentation that service providers are to provide with itemized claims or maintain onsite.

When WtW service provider claims were compared to the fixed unit prices within the agreements, we found that the billed services in several claims did not match the agreement's fixed unit price services. For example, one WtW service provider billed counseling intake services at \$500 per client. The service provider agreement was silent concerning intake services. However, we determined that the billed services were allowable after reviewing source documentation at this service provider. We believe that incorporating a scope of work, or the entity's proposal, into the service provider agreement would provide a more complete explanation of services, as well as performance requirements.

Some agreements did not address the frequency for submitting claims to the CGFP. As a result, approximately \$40,000 of the East Chicago WtW program coordinator's salary and fringe benefits incurred from April 1, 2000 through March 31, 2001, were excluded from the reported QFSR expenditures, as of March 31, 2001. We believe that, had the agreement addressed the frequency for submitting claims, East Chicago would have submitted claims promptly.

Service providers did not consistently submit source documentation with their claims nor always maintain source documentation onsite. Again, the WtW agreements did not always address the custody or submission of source documentation in support of billed services. For example, we reviewed the CGFP's service provider agreement with GPTC. This agreement provided for WtW participant transportation services. While auditing GPTC claims at the City of Gary, we discovered that source documentation for specific WtW participant transportation and administrative costs was not consistently included with claims. GPTC's documentation in support of these claims was either insufficient or not available.

29 CFR 97.36(b)(2) states:

Grantees . . . will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts . . .

City of Gary officials concurred that the content of service provider agreements is lacking. They provided copies of agreements that were modified to include details of billable rates, frequency for submitting claims, and required source documentation.

We reviewed the modified service provider agreements. While we found evidence for the frequency for submitting claims and requiring source documentation, details of billable rates were still not always defined in the modified agreements. For example, the CGFP-NGI modified agreement still does not define Medical Career Assessments, Life Skills, and Job Coaching.

Overall Summary

In summary, we question a total of \$130,205, as follows:

Reason Questioned	Part	Page	Questioned Costs
Multiple or Excessive Claims	A	5	\$ 50,958
Unsupported Claims	B	8	72,268
Unsupported OJT Instruction	C	12	4,260
Unallowable Placement Costs	D	13	1,072
Provider Services Not Included Within Service Provider Agreements	E	14	1,647
TOTAL			\$ 130,205

Recommendation

We recommend that the Assistant Secretary for Employment and Training:

- recover questioned costs of \$130,205; and
- direct the City of Gary to improve the contract administration system for procuring WtW participant services by:
 - procuring service providers through an independent City unit, similar to the City procedures for procuring goods totaling \$75,000 or more;
 - requiring official procurement documentation and original service provider agreements/modifications be maintained by this independent City unit; and
 - ensuring that service provider agreements detail what services are included in billable rates.

2. Other Unallowable Claims

Other unallowable expenditures resulted in questioned costs of \$3,749

The City of Gary claimed \$3,749 resulting from (A) claims not offset by refunds, and (B) a fringe benefits rate not properly supported.

A. Service Provider Claims Not Offset By Refunds

Two service providers reimbursed the CGFP for previously billed WtW participant services. One service provider, Staff Source, submitted a \$1,350 refund to the CGFP in August 2000 for claimed OJT services. Another service provider, NGI, submitted a \$536 refund to the CGFP in January 2000 for a placement determined to be invalid. We determined that both refunds were promptly deposited into the City of Gary bank account established for WtW. However, claimed QFSR expenditures, as of March 31, 2001, were not reduced by the respective amount of these refunds.

29 CFR 97.22(a) states:

Limitation on use of funds. Grant funds may be used only for:

- (1) The allowable costs of the . . . subgrantees . . . including . . . payments to fixed-price contractors. . . .

After the service providers provided the reimbursements, the previously booked expenditures no longer met the definition of allowable cost. It appears the expenditures were not appropriately reduced due to management oversight. Consequently, we questioned \$1,886.

City of Gary officials concurred with this finding. They indicated refunds have been posted to offset expenditures and the next QFSR will reflect the changes.

B. Claimed Fringe Benefits Rate Not Supported

The City of Gary partnered with several regional cities for the delivery of WtW services. Four program coordinators directly administered WtW services to eligible participants in Gary, Hammond, East Chicago, and Lake Station/Hobart. In East Chicago, the WtW program coordinator was an East Chicago employee. East Chicago was reimbursed for the WtW program

coordinator's salary and fringe benefits by the CGFP through a contractual agreement. However, East Chicago was unable to support the fringe benefits rate billed to the CGFP for two reimbursement claims covering the period June 21, 1999 through March 31, 2000. East Chicago billed a fringe benefits rate of 18.65 percent. East Chicago provided documentation to support an 11.9 percent rate. We determined the questioned cost as follows:

Claim Period	Claimed Salary			Unsupported Rate	Questioned Cost
June 21 through December 31, 1999	\$ 18,846	Claimed Fringe Benefits Rate	Fringe Benefits Rate Per Audit	(Billed Rate Less Audited Rate)	(Claimed Salary X Unsupported Rate)
January 1 through March 31, 2000	8,750				
	\$ 27,596	.1865	.1190	.0675	\$ 1,863

East Chicago officials claimed their fringe benefits rate as a result of being informed by CGFP officials to use the City of Gary's fringe benefits rate established in WtW Competitive Grant.

29 CFR 97.20(b) states:

The financial management system of . . . subgrantees must meet the following standards. . .

(6) Accounting records must be supported by . . . source documentation. . . .

Further, the East Chicago WtW program coordinator's salary and fringe benefits incurred for the period, April 1, 2000 through March 31, 2001, were excluded from the reported QFSR expenditures as of March 31, 2001. The CGFP must ensure that East Chicago claims covering this period and any future periods are properly adjusted.

City of Gary officials generally agreed with our finding. However, the officials indicated the actual fringe benefits rate is 12.9 percent and includes the following fringes: FICA, Pension, Unemployment Insurance, and Worker's Compensation. The officials also provided an East Chicago invoice, dated June 26, 2001, that was reduced by \$3,646 for all previously claimed excess fringe benefits covering the period June 1999 through March 2001.

We reviewed the \$3,646 fringes overpayment adjustment applied to the June 26, 2001 East Chicago invoice and accept this adjustment as well as the claimed 12.9 percent fringe benefits rate.

Recommendation:

We recommend that the Assistant Secretary for Employment and Training:

- a. verify that the City of Gary has reduced future QFSR expenditures by \$3,749 resulting from (1) properly posting the refunds to offset expenditures and (2) in accordance with the adjusted June 26, 2001 East Chicago invoice, or recover \$3,749; and
- b. direct the CGFP to ensure that future fringe benefits claims are billed at the proper rate.

3. Inadequate Participant Eligibility and Documentation

The CGFP reported 235 participants served on the March 31, 2001 QFSR (200 as 70 percent and 35 as 30 percent). The CGFP's MIS listed 248 participants that applied for the WtW program through March 31, 2001. Initial eligibility testing revealed that some did not meet the ETA definition of a participant served.⁶ The CGFP officials subsequently confirmed that 47 of the reported 248 did not meet ETA's definition. Therefore, the universe of participants upon which we selected a sample was 201 (248 less 47). We then judgmentally selected a sample of 60 from this 201 adjusted universe of participants served. Because the CGFP staff did not include an eligibility determination date in the MIS, the sample was divided into two groups based upon our review of the participant file and our determination as to when the participant enrolled into the WtW program. We determined that 19 of the sampled participants enrolled before January 1, 2000, and the remaining 41 enrolled from January 1, 2000 through March 31, 2001. This was necessary because of a change in participant eligibility requirements effective January 1, 2000. The eligibility testing revealed seven ineligible participants and two misclassified participants.

A. Ineligible Participants

7 ineligible participants resulted in questioned cost of \$2,808
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Of the 60 participants in our sample, 7 were determined ineligible. We identified six ineligible participants who the CGFP believed were on TANF and thus enrolled in the program. Our audit determined they were not receiving TANF at the time of enrollment and, therefore, were not eligible. Moreover, they did not meet the requirements within the other non-TANF WtW eligibility categories. One additional participant was enrolled as an eligible non-custodial parent. However, the participant's file lacked the necessary documentation for this eligibility category and was, therefore, determined ineligible.

\$ Two participants were enrolled before January 1, 2000 and classified as *long-term welfare dependence (30%)*. 20 CFR 645.213(a)(1) requires these participants to meet the following requirement: "The individual is receiving TANF assistance. . . ."

\$ Two participants were enrolled after January 1, 2000 and classified as *primary eligibility (70%)*. 20 CFR 645.212(a)(1) requires these participants to meet the following requirement: "(S)he is currently receiving TANF assistance. . . ."

- C One participant was enrolled after January 1, 2000 and classified as *primary non-custodial eligibility (70%)*. 20 CFR 645.212(c) provides for several documentation requirements including current employment status, TANF assistance for minor child, and a personal responsibility contract.
- C Two participants were enrolled after January 1, 2000 and classified as *other eligibles (30%)*. 20 CFR 645.213(a) requires these participants to meet the following requirement: “Is currently receiving TANF assistance. . . .”

We believe that the ineligible participants were served by the CGFP because they did not have an adequate system to determine whether the participants or minor children were receiving TANF/AFDC benefits at the eligibility determination date. As a result of visiting FSSA and obtaining TANF/AFDC information for participant files that lacked such information, we were able to verify the eligibility of other sampled participants. However, since none of the seven remaining participants had been receiving TANF at the time of their WtW enrollment or had the necessary non-custodial parent documentation in the participant file, we determined they were ineligible. As a result, we are questioning \$2,808 of direct participant services paid on behalf of these ineligible participants.

City of Gary officials generally concurred with the finding with the exception of two ineligible participants having drug screens included in CGFP’s eligibility determination.

We determined all seven participants were ineligible for the program because, at the time of WtW enrollment, six were not receiving TANF, and the other participant’s file lacked the necessary documentation to meet the non-custodial parent eligibility category. Providing drug screens to potential participants is irrelevant for eligibility determination. The need for substance abuse treatment is one of several barriers to employment and/or characteristics of long-term welfare dependence, and only a part of the overall eligibility requirement(s).

B. Misclassified Participants

70 percent classification statistics and expenditures overstated

Our eligibility testing also disclosed two participants who were not properly classified. One participant was classified as *hard-to-employ (70%)* enrolled before January 1, 2000, and one participant was classified as *primary eligibility (70%)* and enrolled after January 1, 2000. The misclassified *hard-to-employ* had a

high school diploma, did not require substance abuse treatment, and had not received TANF/AFDC for 30 or more months at WtW enrollment. The misclassified *primary eligibility* participant also had not received TANF/AFDC for 30 or more months at WtW enrollment. However, both participants met the respective 30 percent criteria and should have been classified accordingly.

The misclassifications overstated CGFP's statistics in the 70 percent category of participants served, while understating the results in the 30 percent category. The improper classification of participants also affects the proper reporting of the respective QFSR detail line item expenditures. However, these QFSR line items could not be reconciled to the general ledger as explained in Finding Number 4A. We believe the misclassification occurred due to management oversight. Misclassified costs were determined as direct services paid on behalf of these participants, or \$6,852.

City of Gary officials concurred.

Recommendations:

We recommend that the Assistant Secretary for Employment and Training:

- a. recover \$2,808 for seven ineligible participants;
- b. direct the CGFP to transfer \$6,852 from the 70 percent category to the 30 percent category expenditure accounts for the two misclassified participants; and
- c. direct the CGFP to correct the QFSR and the MIS to reflect seven ineligible participants and the proper classification for two misclassified participants.

4. Noncompliance With Grant Requirements

The City of Gary did not always comply with the grant's major requirements. We determined that many QFSR detail line items could not be reconciled to the City's accounting system or the MIS and profit was not negotiated as a separate element of cost during the procurement of WtW service providers.

A. QFSR Detail Line Items Not Supported

QFSR detail line items do not reconcile to general ledger or MIS

While we were able to reconcile total WtW expenditures on the March 31, 2001 QFSR to the financial records, individual categories of expenditures could not be reconciled. These included 70 percent and 30 percent expenditures, administrative expenditures, and the program activity expenditure categories. A similar condition was noted in our postaward survey of the City of Gary and included in our report on the second round WtW competitive grants in September 1999.

In addition, the reporting of participants served was incorrect. The CGFP reported 235 participants served on the March 31, 2001 QFSR (200 as 70 percent and 35 as 30 percent). The CGFP's MIS listed 248 participants that applied for the WtW program through March 31, 2001. Initial testing revealed that some of these did not meet the ETA definition of Aparticipant served. The CGFP officials subsequently confirmed that 47 of the reported 248 did not meet ETA's definition. Of the remaining 201 (248 less 47) "participants served," 147 were designated as 70 percent, 25 were designated as 30 percent, and 29 were undesignated.

Expenditures

The City of Gary accounting system never incorporated the QFSR expenditure reporting requirements and did not maintain an audit trail from reported line items to source documentation. The CGFP staff could not document which expenditures in the general ledger were associated with 70 percent and 30 percent expenditures, administrative expenditures, and the program activity expenditure categories. As a result, it was not possible to reconcile QFSR detail line item expenditures to the financial records, except in total.

Furthermore, the CGFP staff did not use time sheets which allocated their time spent serving 30 percent and 70 percent participant categories or completing administrative vs. program activity duties, thus making accuracy impossible for allocating actual costs. In March 2001, the CGFP staff began utilizing a time sheet to track hours worked in support of these categories. Consequently, the CGFP may have to estimate staff time incurred to serve 70 percent and 30 percent participant categories and administrative versus program activity duties from grant inception through February 2001.

Participants Served

The CGFP staff could not provide the audit trail of participants reported in the MIS, or other source documentation. The CGFP only recently, in March 2001, implemented an automated centralized MIS. Prior to this date, each of four CGFP Program Coordinators maintained and updated their own participant tracking system and provided the data to the central CGFP office. Inaccurate programmatic reporting affects the CGFP's ability to accurately track QFSR line item category costs in accordance with their cost allocation plan. In addition, inaccurate reporting affects ETA's ability to properly exercise its stewardship responsibility over the WtW program.

The breakdown of expenditures and participant data is important because of limitations on costs.

20 CFR 645.211 states:

. . . may spend not more than 30 percent of the WtW funds allotted to or awarded to the operating entity to assist individuals who meet the other eligibility requirements . . . The remaining funds allotted to or awarded to the operating entity are to be spent to benefit individuals who meet the general eligibility and/or noncustodial parents' eligibility requirements . . .

20 CFR 645.235(a)(2) states:

. . . The limitation on expenditures for administrative purposes under WtW competitive grants will be specified in the grant agreement

but in no case shall the limitation be more than fifteen percent (15%) of the grant award.

20 CFR 645.240(d) *Participant reports*, states:

Each grant recipient must submit participant reports to the Department. Participant data must be aggregate data, and, for most data elements, must be cumulative. . . .

City of Gary officials concurred.

B. Profit Not Negotiated as a Separate Element

Our review of the service provider agreement-s section, entitled Cost of Services, resulted in our determination that profit is not negotiated as a separate element.

29 CFR 97.36(f)(2) states:

Grantees . . . will negotiate profit as a separate element of the price for each contract in which there is no price competition and in all cases where cost analysis is performed. . . .

This procurement requirement was not included in the CGFP or City of Gary procurement policies and procedures even though several service providers were for profit entities.

City of Gary officials agreed.

Recommendation:

We recommend that the Assistant Secretary for Employment and Training direct the City of Gary and/or the CGFP to comply with grant requirements by:

- a. maintaining a MIS to accurately track participants served in the WtW program by identifying and documenting all served participants= 70 percent or 30 percent eligibility classifications, including TANF data, prior to referral to service providers, to ensure proper QFSR reporting;

- b. correcting the QFSR and the MIS to reflect the proper classification of all undesignated participants; and
- c. completing a system to ensure that the CGFP and all service providers identify 70 percent and 30 percent expenditures, administrative expenditures, and program activity expenditure categories. Once a system is in place, the CGFP needs to recalculate the expenditures charged to each individual line on the QFSR from the inception of the competitive grant; and
- d. negotiating profit as a separate element of cost during the procurement of WtW service providers.

CITY OF GARY

Response to Draft Report

Crosswalk from City of Gary Response to Report Findings	
Finding Number in City of Gary Response	Finding Number in Report
1A and 1B	1F
1C	4B
2	1A, 1B, 1C, 1D, and 1E
3	2A
4	2B
5A and 5B	3A and 3B
6	4A



OFFICE OF THE MAYOR
GARY, INDIANA 46402 - 1236

SCOTT L. KING
MAYOR

(219) 881-1301
FAX (219) 881-1337

December 6, 2001

Preston Firmin
Regional Inspector General For Audit
Office of the Inspector General
230 South Dearborn Street – Room 744
Chicago, Illinois 60604

Re: Response to Audit

Dear Mr. Firmin:

Attached is the City of Gary's response to the audit findings delineated in your correspondence dated November 27, 2001.

Should you have questions/comments or need any additional information, please do not hesitate to contact Ms. Jewell Ross-Brown, Program Administration, at 219.881.5202.

Sincerely,

A handwritten signature in blue ink, appearing to read "Scott L. King".

Scott L. King, Mayor
City of Gary

FINDING 1 – INADEQUATE CONTRACT ADMINISTRATION SYSTEM

A. No Segregation of Duties

CGFP follows policies mandated by the City of Gary Policies and Procedures No. FP206.1 section 4.2.2 in the procurement of program services. The establishment of an additional independent unit outside of the City's Law Department, Department of Finance and Board of Public Works and Safety would not be in the best interest of the City of Gary for the following reasons:

1. The process that the WtW program follows in order to procure services, while not infallible, does work. In order to establish an independent unit, we would have to create another department with staff. This would not be economically feasible.
2. The Board of Public Works and Safety does in fact evaluate, make the award and maintain possession of original service provider agreements.
3. The process for securing and awarding agreements is:

CGFP:

- a. Request for proposals issued by WtW staff
- b. Pre-proposal conference
- c. Proposals received and evaluated
- d. A meeting with the service provider with the lowest-best proposal. Though it has not in the past been reduced to writing, negotiations on costs are done at this point.
- e. The agreement is drafted and forwarded to the service provider for review.

FINANCE DEPARTMENT:

- f. If funds are available, the finance department signs off.

LAW DEPARTMENT:

- g. The agreement is submitted to the law department, and if it meets the legal standards, the law department signs off.

BOARD OF PUBLIC WORKS & SAFETY:

- h. The agreement is given to the staff of the Board of Public Works and Safety for review. If more than one proposal was received, the WtW staff in a cover letter indicates who the other provider(s) were and the costs of their services along with a recommendation.
- i. The Deputy Mayor reviews all items prior to them being placed on the agenda. If there are questions/concerns, they are addressed at this time. If additional information is required that cannot be obtained in a timely manner, the Deputy Mayor will not allow the agreement(s) to be placed on the agenda.

B. Inadequate Service Provider Agreements

Changes were made to the agreements, that are still in effect, which reflect your recommendations. The agreement for Workforce Development will be forwarded as soon as it is returned. (See attachment I)

C. Profit Not Negotiated as a Separate Element

We will comply.

FINDING 2 – EXCESSIVE, UNSUPPORTED AND UNALLOWABLE SERVICE PROVIDER CLAIMS

1. Multiple or Excessive Claims (\$50,958):

The agreement with New Generations (NGI), by oversight, contained the monthly costs versus the total costs for Job Readiness, Life Skills and Job Coaching. The costs should have been recorded in the agreement as follows:

- a. Life Skills \$1,020 (\$170.00/month for 6 months)
- b. Job Readiness \$1,020 (\$170.00/month for 6 months)
- c. Job Coaching \$1,311 (\$218.50/month for 6 months)

The agreement has been corrected reducing the questioned costs from \$48,615 to \$340. The cost of \$340.00 for the two participants who received seven job readiness training sessions will be deducted from the next invoice and adjustments will be made to the next QFSR.

2. Unsupported Claims for Transportation (\$38,344), Medical Careers Assessments (\$33,245), and Supplies (\$679)

Copies of the 61 medical career assessments with the physician's evaluations attached are included. The supporting documentation for the invoices processed on October 15, 1999 (\$9,021) and on June 1, 2001 (\$9,021) verify that we were not billed twice for the same period. The dates on the printouts are different. (See attachment II, III)

3. Unsupported Claims for OJT instruction (\$4,260)

We are continuing to gather this information.

4. Unallowable Placements Costs & Provider Services not included in Service Provider Agreements (\$5,935)

While it is true that thru error ½ of the O.J.T. costs plus fringes were withheld versus ½ of the job placement costs, all but one participant is currently employed (See attachment IV). Once the error was discovered it was immediately rectified.

FINDING 3 – SERVICE PROVIDER CLAIMS NOT OFFSET BY REFUNDS

Reimbursements of \$1,886 resulting from previously billed WtW participant services by service providers (New Generations and Staff Source) have been posted to offset expenditures. These changes will be reflected in the next QFSR.

FINDING 4 – CLAIMED FRINGE BENEFITS RATE NOT SUPPORTED

East Chicago officials misinterpreted fringe benefit information. The maximum allowable rate of 18.65% was billed versus their actual expenditure rate of 12.9%. The overage paid to East Chicago in fringes was deducted from their June 26, 2001 invoice. The amount deducted was \$3,645.99 for the period June 2000 to March 2001. Current invoices are billed at the correct rate of 12.9%. (See attachment V)

FINDING 5 – INADEQUATE PARTICIPANT ELIGIBILITY & DOCUMENTATION

A. Ineligible Participants

Two of the ineligible participants we take issue with, in that, at that time drug screens were a part of our eligibility determination.

B. Misclassified Participants

Costs for the two misclassified participants will be transferred and reflected in the next QFSR.

We will follow the recommendation for A & B.

FINDING 6 – QFSR DETAIL LINE ITEMS NOT SUPPORTED

We will heed the recommendations.