

# U.S. Department of Labor

Office of Inspector General—Office of Audit

**EMPLOYMENT AND TRAINING  
ADMINISTRATION**



## **KINGSTON-NEWBURGH ENTERPRISE CORPORATION EARMARK GRANTS**

Date Issued: March 12, 2007  
Report Number: 02-07-201-03-390

# BRIEFLY...

Highlights of Report Number: 02-07-201-03-390, to the Assistant Secretary for Employment and Training

## WHY READ THE REPORT

Kingston-Newburgh Enterprise Corporation (KNEC) was established with the mission to address revitalization of Enterprise Community zone neighborhoods in Kingston, New York, and Newburgh, New York.

KNEC received three earmark grants awarded in 2001, 2002 and 2003 for a total award of \$1.9 million. The purpose of the grants was to provide training and employment services to 840 residents of the Enterprise Community zones in Kingston and Newburgh.

## WHY OIG DID THE AUDIT

The audit objectives were to determine the following:

1. Were KNEC's participants eligible?
2. Were participants' training and employment outcomes achieved?
3. Were reported costs allowable, allocable, and reasonable for the grants?

## READ THE FULL REPORT

To view the report, including the scope, methodology and full auditee response, go to:

<http://www.oig.dol.gov/public/reports/oa/2007/02-07-201-03-390.pdf>

MARCH 2007

## KINGSTON-NEWBURGH ENTERPRISE CORPORATION EARMARK GRANTS

### WHAT OIG FOUND

KNEC reported serving 1,210 participants and grant costs of \$1.7 million, of which \$1.5 million related to 27 training and employment contracts.

Our audit found that:

1. KNEC could only identify 916 participants served and could not provide documentation to support eligibility for 685 participants. We questioned \$1.2 million of contract costs used for ineligible or undocumented participants.
2. KNEC could not provide verifiable outcome data for any of the 428 participants it claimed to have placed into employment.
3. KNEC did not have adequate policies and procedures for procurement and contract administration.

### WHAT OIG RECOMMENDED

The OIG recommended the Assistant Secretary for Employment and Training recover questioned costs of \$1,201,110.

In its response to the draft report, KNEC stated that it strongly disagreed with the report's findings and determinations.

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# Executive Summary

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We conducted a performance audit of Kingston-Newburgh Enterprise Corporation's (KNEC) three earmark<sup>1</sup> grants awarded in 2001, 2002 and 2003 for a total award of \$1.9 million. The purpose of the grants was to provide training and employment services to residents of the enterprise community (EC) zones in Kingston and Newburgh, New York. Eligible residents were also to be enrolled in the Temporary Assistance to Needy Families (TANF) or Workforce Investment Act (WIA) programs.

Our audit objectives were to determine the following:

1. Were KNEC's participants eligible?
2. Were participants' training and employment outcomes achieved?
3. Were reported costs allowable, allocable, and reasonable for the grants?

## Results

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1. KNEC's grants required it to serve 840 eligible Kingston and Newburgh EC zone residents who were TANF or WIA enrolled. KNEC reported serving 1,210 participants, but could only identify 916 participants and could not explain the difference. Moreover, KNEC could not provide adequate documentation to support eligibility for 685 participants. KNEC did not establish policies and procedures to ensure participant eligibility, and did not properly retain participant records. Furthermore, KNEC awarded 27 contracts for participant training and employment services, but did not effectively monitor contractors to ensure grant funds were used only for the intended population. As a result, we question \$1,201,110 in contract costs used for ineligible or undocumented participants.
  - KNEC could not provide any participant documentation for 5 of 27 contracts, for participant training and employment services, with total claimed costs of \$253,192. KNEC could not support whether eligible participants received grant services from the contractors.
  - For the 916 participants KNEC could identify, we found 685 (75 percent) were either not eligible or had insufficient documentation to establish eligibility. Contract costs incurred for these participants were \$947,918.
2. Under the terms of the grants, KNEC agreed to place 428 participants (51 percent of planned participants). KNEC could not provide verifiable outcome data for any of its participants, because it did not have a system to document, track or report outcomes. In addition, KNEC was unable to obtain outcome data from its contractors.

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<sup>1</sup> An earmark grant is awarded with funds set aside from an appropriation for a specific purpose.

3. For the audit period, KNEC reported grant costs of \$1,727,335 -- \$1,493,223 in training and employment contracts and \$234,112 for KNEC administration. However, KNEC did not have adequate policies and procedures for procurement and contract administration to ensure costs were reasonable and allocable to the grants under Federal requirements. KNEC operated as a small organization with one staff person, the President of KNEC, reporting directly to the Board of Directors. However, the President claimed to be unaware of Federal requirements for financial systems and operations. Moreover, KNEC's Board of Directors did not provide adequate oversight of financial operations.

#### Auditee Response

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In response to the draft report, KNEC stated that it strongly disagreed with the report's findings and determinations. KNEC claimed it had inherent flexibility in grant operations under the provisions of "ETA-Reference Book One: Technical Assistance for Writing Earmark Grant Proposals" and stated that ETA grant monitoring did not mention significant problems with eligibility or documentation.

KNEC also provided additional documentation to support participant eligibility which was not provided during fieldwork.

The KNEC response is included in its entirety in Appendix D.

#### OIG Conclusion

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The "ETA-Reference Book One: Technical Assistance for Writing Earmark Grant Proposals" cited by KNEC is a guide for developing grant proposals and does not take precedence over requirements in executed grant agreements.

Based on the additional documentation of participant eligibility provided by KNEC, questioned costs as presented in the draft report have been reduced by \$167,652 to \$1,201,110.

#### Recommendation

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We recommend the Assistant Secretary for Employment and Training recover questioned costs of \$1,201,110.

We are not making specific recommendations related to KNEC's participant eligibility and document retention systems for earmark grants because the grants have expired. However, if ETA awards future grants to KNEC, ETA should first ensure that KNEC has established adequate policies and procedures to ensure compliance with grant terms and conditions, and with Federal requirements.

U.S. Department of Labor

Office of Inspector General  
Washington, DC 20210



## Assistant Inspector General's Report

Ms. Emily Stover DeRocco  
Assistant Secretary for Employment and Training  
U. S. Department of Labor  
200 Constitution Avenue, NW  
Washington, DC 20210

We conducted a performance audit of KNEC's three earmark grants awarded in 2001, 2002 and 2003 for a total award of \$1.9 million. The purpose of the grants was to provide training and employment services to residents of the EC zones in Kingston and Newburgh, New York. Eligible residents were also to be enrolled in TANF or WIA.

Our audit objectives were to determine the following:

1. Were KNEC's participants eligible?
2. Were participants' training and employment outcomes achieved?
3. Were reported costs allowable, allocable, and reasonable for the grants?

We conducted our audit in accordance with Generally Accepted Government Auditing Standards for performance audits. Our objectives, scope, methodology and criteria are detailed in Appendix B.

### **Objective 1 – Were KNEC's Participants Eligible?**

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#### **Results and Findings – Questioned Costs of \$1,201,110 for Ineligible or Undocumented Participants**

Office of Management and Budget (OMB) Circular A-122, Attachment A, Paragraphs A.2 and A.3, state that to be allowable, costs must be adequately documented and reasonable under grant terms and conditions. KNEC's grants required it to serve 840 eligible Kingston and Newburgh EC zone residents who were TANF or WIA enrolled.

KNEC reported serving 1,210 participants, but could only identify 916 participants and could not explain the difference. Moreover, KNEC could not provide adequate documentation to support eligibility for 685 participants. KNEC did not establish policies

and procedures to ensure participant eligibility, and did not properly retain participant records. Furthermore, KNEC awarded 27 contracts for participant training and employment services, but did not effectively monitor contractors to ensure grant funds were used only for the intended population. As a result, we question \$1,201,110 in contract costs used for ineligible or undocumented participants, as detailed below and in the Exhibit on page 13.

a. Contracts Without Documented Participants (\$253,192 questioned)

KNEC could not provide any participant documentation for 5 contracts with total claimed costs of \$253,192. For the contracts, KNEC could not support whether eligible participants received grant services. Therefore, we question \$253,192 for 5 contracts without documented participants.

b. 490 Participants Were Not EC Zone Residents (\$742,925 questioned)

Out of 916 participants, 490 were not residents of the Kingston or Newburgh EC zones. The EC zones were defined in the grants as Kingston census tracts 9517 and 9520, and Newburgh census tracts 4 and 5. Residency was determined by identifying the census tract containing the participant's address and comparing it to the EC zone census tracts.<sup>2</sup> We identified 490 participants who were not residents of the EC zones and, as a result, question \$742,925 of contract costs used for non-residents.

c. 70 EC Zone Residents Were Undocumented (\$50,772 questioned)

Participant documentation was not provided for two contractors: the Hodge Center and Riverview Community Development Corporation. For the Hodge Center, KNEC officials stated all participant records were destroyed when its project coordinator left. For the Riverview Community Development Corporation, KNEC officials were unable to locate participant records. Title 29, Part 95.53(b) of the Code of Federal Regulations (CFR) requires documents be retained at least 3 years from submission of the final cost report. KNEC provided participant lists which were used for residency tests and 70 participants were found to be EC zone residents. However, KNEC could not document that the 70 residents were enrolled in TANF or WIA, and received grant-funded services. As a result, we question \$50,772 of contract costs used for the 70 residents for whom KNEC could not provide documentation of enrollment in TANF or WIA, and the receipt of grant funded services.

d. 125 EC Zone Residents Were Not TANF or WIA Enrolled (\$154,221 questioned)

KNEC had 356 participants who were EC zone residents, excluding the 70 Hodge Center and Riverview Community Development Corporation residents. There were 125 participants who were ineligible because they were not TANF or WIA enrolled. We question contract costs of \$154,221 for participants not enrolled in TANF or WIA.

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<sup>2</sup> Census tracts for participant addresses were identified using the address search feature on the U.S. Census Bureau's *Census 2000* website <http://www.census.gov/main/www/cen2000.html>.



## **Auditee Response**

In response to the draft report, KNEC stated that it strongly disagreed with the report's findings and determinations. KNEC claimed it had inherent flexibility in grant operations under the provisions of "ETA-Reference Book One: Technical Assistance for Writing Earmark Grant Proposals" and stated that ETA grant monitoring did not mention significant problems with eligibility or documentation.

KNEC also provided additional documentation to support participant eligibility which was not provided during fieldwork.

## **OIG Conclusion**

The "ETA-Reference Book One: Technical Assistance for Writing Earmark Grant Proposals" cited by KNEC is a guide for developing grant proposals and does not take precedence over requirements in executed grant agreements. ETA grant monitoring was outside the scope of the audit.

Based on the additional documentation of participant eligibility provided by KNEC, questioned costs as presented in the draft report have been reduced by \$167,652 to \$1,201,110.

## **Recommendation**

We recommend the Assistant Secretary for Employment and Training recover questioned costs of \$1,201,110.

We are not making specific recommendations related to KNEC's participant eligibility and document retention systems for the earmark grants because the grants have expired. However, if ETA awards future grants to KNEC, ETA should first ensure that KNEC has established adequate policies and procedures to ensure compliance with grant terms and conditions, and with Federal requirements.

## **Objective 2 – Were Participants' Training and Employment Outcomes Achieved?**

### **Results and Finding – Outcomes Were Not Reported or Verifiable**

Under the terms of the grants, KNEC agreed to place 428 participants (51 percent of 840 planned enrollments). KNEC could not provide verifiable outcome data, because it did not document, track or report grant outcomes. In addition, KNEC was unable to obtain outcome data from its contractors. KNEC's President stated that, had she been aware of Federal requirements, she would have kept better records.

## **Auditee Response**

KNEC's response to the draft report did not address this finding.

## **OIG Conclusion**

We are not making specific recommendations related to outcomes for the earmark grants because the grants have expired. However, if ETA awards future grants to KNEC, ETA should first ensure that KNEC has established adequate policies and procedures to ensure compliance with grant terms and conditions, and with Federal requirements.

## **Objective 3 – Were Reported Costs Allowable, Allocable and Reasonable for the Grants?**

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### **Results and Findings – KNEC's Procurement and Contract Administration Systems Did Not Ensure Costs Were Reasonable and Allocable**

29 CFR 95.21(b)(3) requires grantee financial systems to provide: "Effective control over and accountability for all funds, property and other assets. . . ." For the audit period, KNEC reported grant costs of \$1,727,335 -- \$1,493,223 for training and employment services contracts and \$234,112 for administration. However, KNEC did not have adequate policies and procedures for procurement and contract administration to ensure costs were reasonable and allocable to the grants under Federal requirements.

KNEC operated as a small organization with one staff person, the President of KNEC, reporting directly to the Board of Directors. However, the President claimed to be unaware of Federal requirements for financial systems and operations. Moreover, the Board of Directors did not provide adequate oversight of financial operations. In the Single Audits for Fiscal Years ending December 31, 2002 and 2003, the reports on internal controls include comments that the Board of Directors be involved in KNEC's financial affairs to provide oversight and independent review. The Board of Directors hired an accounting consultant to monitor KNEC's financial systems and instruct the President on her fiscal responsibilities. KNEC's President stated the most recent monitoring by the consultant occurred prior to April 2003 and was not documented.

#### **a. Noncompetitive and Undocumented Procurement**

29 CFR 95.43 states: "All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition." 29 CFR 95.46 requires procurement records include: (a) basis for contractor selection, (b) justification for noncompetitive procurement, and (c) basis for award cost or price.

KNEC awarded 27 contracts without competition and did not document the procurement process. KNEC's President believed the executed contract was sufficient, stand-alone

documentation for procurement, and did not prepare or retain other procurement documentation. KNEC's single audit reports also noted the lack of competitive procurement and recommended KNEC comply with Federal requirements.

KNEC's President agreed with our findings. She stated contracts under the first grant were awarded before she joined KNEC, and she could not explain the basis for selection. Contracts under the other two grants were awarded to existing contractors.

b. Inadequate Contract Administration

OMB Circular A-122, Attachment A, Paragraph A2 states that to be allowable, costs must be reasonable for the grant and adequately documented. Under 29 CFR 95.51(a), grantees are required to monitor contractors and each activity supported by the grant. 29 CFR 95.47 further requires:

A system for contract administration shall be maintained to ensure contractor conformance with the terms, conditions and specifications of the contract and to ensure adequate and timely follow up of all purchases. Recipients shall evaluate contractor performance and document, as appropriate, whether contractors have met the terms, conditions and specifications of the contract.

KNEC did not establish an adequate contract administration system with policies and procedures. Moreover, KNEC did not conduct fiscal monitoring of contractors or ensure contract costs were adequately supported. KNEC's President stated that, had she been aware of Federal requirements, she would have kept better records of contract costs. As a result, contractors were paid in excess of contract amounts without modifying the contract, and contract costs were charged to the wrong grant or were not adequately supported. Questioned costs related to contract administration have not been quantified because contract costs were questioned under Objective 1.

**Auditee Response**

KNEC's response to the draft report did not address this finding.

**OIG Conclusion**

We are not making specific recommendations related to KNEC's financial and contract administration systems for the earmark grants because the grants have expired. However, if ETA awards future grants to KNEC, ETA should first ensure that KNEC has established adequate policies and procedures to ensure compliance with grant terms and conditions, and with Federal requirements.



Elliot P. Lewis  
November 20, 2006

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# **Exhibit**

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EXHIBIT

**Kingston-Newburgh Enterprise Corporation  
Schedule of Claimed Participants Enrolled, Claimed Costs and Questioned Costs<sup>3</sup>  
For the Period May 1, 2001 through March 31, 2005**

	Claimed Participants Enrolled	Claimed Costs	Questioned Costs				Total Questioned Costs
			Contracts Without Participants (finding 1a)	Participants Not EC Zone Residents (finding 1b)	Undocumented EC Zone Residents (finding 1c)	Residents Not Enrolled in TANF/WIA (finding 1d)	
<b>Grant 1 (No.AF-11361-01-60)</b>							
Administrative Costs (KNEC)	---	\$ 97,379	---	---	---	---	---
Training and Employment Contract Costs:							
Arden Hill Senior Health Systems	---	\$ 0	---	---	---	---	---
Best Resources - Contract 1	34	80,306	---	\$ 18,896	---	\$ 37,791	\$ 56,687
Best Resources - Contract 2	13	53,500	---	24,692	---	12,346	37,038
Family of Woodstock - Contract 1	30	9,979	---	9,979	---	---	9,979
Hodge Center - Contract 1	128	21,900	---	16,083	\$ 5,817	---	21,900
NEED Quickstart	22	38,888	---	15,909	---	17,676	33,585
Orange County OET - Contract 1	31	45,841	---	16,266	---	0	16,266
Orange County OET - Contract 2	40	73,303	---	23,823	---	0	23,823
Riverview Comm. Dvlpt Corp. - Contract 1	16	86,400	---	86,400	0	---	86,400
St. Georges Church - Contract 1	0	3,800	\$ 3,800	---	---	---	3,800
St. Georges Church - Contract 2	0	1,964	1,964	---	---	---	1,964
UCCC Nurses - Contract 1	12	90,580	---	90,580	---	---	90,580
Ulster County BOCES	28	26,160	---	6,540	---	---	6,540
Ulster County OET	29	65,000	---	33,621	---	---	33,621
<b>Total Grant 1</b>	<b>383</b>	<b>\$ 695,000</b>	<b>\$ 5,764</b>	<b>\$ 342,789</b>	<b>\$ 5,817</b>	<b>\$ 67,813</b>	<b>\$ 422,183</b>
<b>Grant 2 (No. AF-12262-02-60)</b>							
Administrative Costs (KNEC)	---	\$ 86,537	---	---	---	---	---
Training and Employment Contract Costs:							
Best Resources - Contract 3	236	\$ 120,000	---	\$ 45,763	---	\$ 27,458	\$ 73,221
Best Resources - Contract 4	---	80,000	---	30,508	---	18,305	48,813
Family of Woodstock - Contract 2	32	8,101	---	8,101	---	---	8,101
Hodge Center - Contract 2	39	27,843	---	19,276	\$ 8,567	---	27,843
Hodge Center - Contract 3	33	6,800	---	5,770	1,030	---	6,800
Riverview Comm. Dvlpt. Corp. - Contract 2	57	106,073	---	70,715	35,358	---	106,073
St. Georges Church - Contract 3	0	3,450	\$ 3,450	---	---	---	3,450
St. Lukes Hospital	0	150,000	150,000	---	---	---	150,000
UCCC Health Choices 2010	---	0	---	---	---	---	---
UCCC Nurses - Contract 2	12	170,593	---	170,593	---	---	170,593
Ulster Literacy Association	---	0	---	---	---	---	---
<b>Total Grant 2</b>	<b>409</b>	<b>\$ 759,397</b>	<b>\$ 153,450</b>	<b>\$ 350,726</b>	<b>\$ 44,955</b>	<b>\$ 45,763</b>	<b>\$ 594,894</b>
<b>Grant 3 (No. AF-13709-04-60)</b>							
Administrative Costs (KNEC)	---	\$ 50,195	---	---	---	---	---
Training and Employment Contract Costs:							
Best Resources - Contract 5	124	\$ 120,000	---	\$ 40,645	---	\$ 40,645	\$ 81,290
Family of Woodstock Grant 2 Contract 2	---	8,765	---	8,765	---	---	8,765
UCCC Nurses - Contract 3	0	93,978	\$ 93,978	---	---	---	93,978
<b>Total Grant 3</b>	<b>124</b>	<b>\$ 272,938</b>	<b>\$ 93,978</b>	<b>\$ 49,410</b>	<b>\$ -</b>	<b>\$ 40,645</b>	<b>\$ 184,033</b>
<b>Total All Grants</b>	<b>916</b>	<b>\$ 1,727,335</b>	<b>\$ 253,192</b>	<b>\$ 742,925</b>	<b>\$ 50,772</b>	<b>\$ 154,221</b>	<b>\$ 1,201,110</b>

<sup>3</sup> Questioned costs are calculated by contract as: the number of ineligible or undocumented participants multiplied by the average cost per participant for the contract.

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# **Appendices**

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## APPENDIX A

**BACKGROUND**

KNEC was established in 1995 as a not-for-profit, public benefit corporation with the mission to address revitalization of EC zone neighborhoods in Kingston, New York, and Newburgh, New York. KNEC's EC zones were Kingston census tracts 9517 and 9520, and Newburgh census tracts 4 and 5.<sup>4</sup> KNEC's *Corporate By-Laws* mandated the mayors of both cities serve as directors on the Board of Directors. Newburgh provided rent-free office space for KNEC's administration and to house its records.

KNEC received U.S. Department of Labor earmark grants in 2001, 2002 and 2003 to provide training and employment services to targeted residents of the EC zones.

	<u>Grant Number</u>	<u>Grant Period</u>	<u>Award Amounts</u>	<u>Planned Participants</u>
1	AF-11361-01-60	05/01/01–12/31/03	\$695,000	230
2	AF-12262-02-60	06/01/02–03/31/05	\$850,000	230
3	AF-13709-04-60	12/01/03–06/01/05	\$397,400	380
	<b>Totals</b>		<u>\$1,942,400</u>	<u>840</u>

The grants had two eligibility requirements – residency in the EC zones and enrollment in programs either under TANF or WIA. TANF is a federally funded assistance program providing cash assistance, job training, and other services to adults with dependent children. Under WIA, job training and job search services are provided to adults, youth, and dislocated workers. For the grants, KNEC was to enroll TANF and WIA residents of the EC zones. Residents with greater need would receive services of assessment, career counseling, development of an individual employment plan, linkages to transportation and childcare, referral to training, General Equivalency Diploma preparation, and English-as-a-Second Language.

<sup>4</sup> A census tract is a small subdivision of a county and includes an average of 4,000 inhabitants.

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## APPENDIX B

**OBJECTIVES, SCOPE, METHODOLOGY, AND CRITERIA**Objectives

Our audit objectives were to determine the following:

1. Were KNEC's participants eligible?
2. Were participants' training and employment outcomes achieved?
3. Were reported costs allowable, allocable, and reasonable for the grants?

Scope

We conducted our performance audit in accordance with Generally Accepted Government Auditing Standards for performance audits. Fieldwork was conducted from March 8, 2005, through June 9, 2005, at KNEC offices in Newburgh, and at contractor locations in Goshen and Newburgh, New York. KNEC operated as a small organization with one staff person, the President of KNEC, reporting directly to the Board of Directors. Audit issues were discussed with KNEC's President during fieldwork and, when she resigned in May 2005, we provided a summary of audit issues to the Board of Directors. An exit conference was held on November 21, 2006.

We audited three U.S. Department of Labor earmark grants (Grants 1, 2, and 3) awarded to KNEC from the grants' inception through to the latest reported costs.

	<u>Grant Number</u>	<u>Grant Period</u>	<u>Audit Period</u>	<u>Reported</u>	
				<u>Costs</u>	<u>Participants</u>
1	AF-11361-01-60	05/01/01–12/31/03	05/01/01–12/31/03	\$695,000	420
2	AF-12262-02-60	06/01/02–03/31/05	06/01/02–12/31/04	\$759,397	654
3	AF-13709-04-60	12/01/03–06/01/05	12/01/03–03/31/05	\$272,938	136 <sup>5</sup>
<b>Totals</b>				<b>\$1,727,335</b>	<b>1,210</b>

From the U.S. Department of Labor's Federal Project Officer and/or KNEC, we obtained the grant agreements and modifications; Federal Project Officer's monitoring reports; Federal Financial Status Reports; and Quarterly Contractor/Grantee Status Forms. From KNEC, we obtained transaction detail reports, Single Audit Reports, contracts, contractor invoices and support documents, KNEC's *Certificate of Incorporation and Corporate By-Laws*, and participant lists. From Orange County Employment and Training, we obtained participant TANF and WIA enrollment records. From Orange County Employment and Training and Best Resource Center, we obtained KNEC participant records. From Best Resource Center, we obtained contractor cost information in support of sampled grant costs. Census tracts for participant addresses were obtained from the U.S. Census Bureau's Census 2000 website.

<sup>5</sup> Neither KNEC nor the Federal Project Officer provided the Grant 3 performance reports, so Grant 3 reported participants were estimated at 136 by using participant lists and planning goals for contracts with reported costs as of March 31, 2005.

For the 916 participants identified by KNEC, we reviewed 100 percent of participant eligibility. Also for Grant 2, we sampled 52 percent of contract costs and 21 percent of administration costs. Costs from Grants 1 and 3 were not sampled because: (a) we initiated the audit only for Grant 2 and expanded to Grants 1 and 3 due to significant issues with eligibility; (b) there were no findings related to administration costs for Grant 2; and (c) 80 percent of contract costs for the three grants were questioned for participant eligibility issues.

### Methodology

In planning and performing our audit, we considered internal controls of KNEC earmark grants by obtaining an understanding of the program's internal controls, determining whether internal controls had been placed in operations, and assessing control risk in order to determine our auditing procedures for the purpose of achieving our objectives. The objective of our audit was not to provide assurance on the internal controls. Consequently, we did not express an opinion on the internal controls as a whole, but rather how they related to our objectives. Therefore, we evaluated the internal controls as they pertained to grant participants' eligibility, training and employment outcomes, and whether reported costs were allowable, allocable and reasonable.

Our consideration of KNEC earmark grants internal controls would not necessarily disclose all matters that might be reportable conditions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and may not be detected.

We reviewed KNEC's grant agreements and Federal Project Officer's monitoring reports; Federal Financial Status Reports (SF-269) and Quarterly Contractor/Grantee Status Forms; transaction detail reports, Single Audit Reports; KNEC's contracts, contractor invoices, and support documents for invoices; and participant case files, training rosters, and TANF and WIA enrollment documents. We reviewed KNEC's *Certificate of Incorporation* and *Corporate By-Laws*. We interviewed KNEC's President and the U.S. Department of Labor's Federal Project Officer.

We conducted testing at two of KNEC's large contractors -- Orange County Employment and Training, and Best Resource Center. We interviewed current personnel; examined participant records to support eligibility and services received; and reviewed contractor cost information in support of sampled grant costs.

#### a. Program Performance Internal Controls and Testing

We found no controls over eligibility and material weaknesses in controls over performance data and document retention. As a result, we placed minimal reliance on controls and expanded eligibility tests to 100 percent of participants. Controls were assessed through discussions with KNEC's president and contractor staff, and reviews of contracts, Quarterly Contractor/Grantee Status Forms, participant lists and files, and Census Bureau data for residency status.

To determine whether the participants were enrolled in TANF or WIA when grant services were received, we selected 205 of the 356 EC zone resident participants (exclusive of the 70 from Hodge Center and Riverview Community Development Corporation) and reviewed Orange County Office of Employment and Training records.

b. Financial Reporting Internal Controls and Testing

We found material weaknesses in controls over contract management, but no material weaknesses for administrative costs. As a result, we placed minimal reliance on the allowability and allocability of incurred costs related to contracts, and moderate reliance for administrative costs. Controls were assessed through discussion with KNEC's president and reviews of contracts, sampled Grant 2 costs, and Single Audit Reports.

We sampled KNEC's Grant 2 contractor costs on a statistical basis and reviewed 17 payments to contractors totaling \$352,905 or 52 percent of total Grant 2 contracts. For 8 of 17 payments totaling \$211,379, we found the related contractor costs were not supported in KNEC's or the contractors' records. Since 80 percent of contractor costs were already questioned as part of eligibility, we did not project the errors for this sample and did not expand sampling to contract costs incurred in Grants 1 and 3.

We judgmentally selected 4 payments for administrative costs totaling \$18,310 (21 percent of total administrative expenses) based on the transaction amounts and the risk associated with having a single employee operation. We selected a payroll transaction for \$16,796 and reviewed 12 weekly timesheets. We also selected 3 travel reimbursements totaling \$1,514 and reviewed cost detail. We found no errors for this sample.

Criteria

We tested compliance with Federal requirements using the following criteria:

- WIA (Public Law 105–220; August 7, 1998)
- Executed grant agreements, as modified (AF-11361-01-60; AF-12262-02-60; and AF-13709-04-60)
- 29 CFR 95, "*Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*"
- OMB Circular A-122, "*Cost Principles for Non-Profit Organizations*"

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**APPENDIX C**

**ACRONYMS AND ABBREVIATIONS**

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CFR	Code of Federal Regulations
EC zone	Enterprise Community Zone
KNEC	Kingston-Newburgh Enterprise Corporation
OIG	Office of Inspector General
OMB	Office of Management and Budget
TANF	Temporary Assistance to Needy Families
WIA	Workforce Investment Act

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## APPENDIX D

## AUDITEE RESPONSE TO DRAFT REPORT

Kingston Newburgh Enterprise Corporation

**(KNEC)**

October 25, 2006

Mr. Mark L. Schwartz  
 Regional Inspector General for Audit  
 US Department of Labor  
 Office of the Inspector General  
 201 Varick Street  
 New York, NY 10014

Dear Mr. Schwartz,

The cities of Kingston and Newburgh on behalf of the Kingston Newburgh Enterprise Corporation (KNEC) have received the September 1, 2006 Discussion Draft Audit Report (#02-06-203-03-390) for the USDOL funded KNEC earmark grants (AF-13709-04-60, AF-12262-02-60, and AF-11361-01). On October 3, 2006 Mr. Stephen Finkle indicated verbally to you that we would be responding to your office formally in regard to the Discussion Draft Audit Report no later than October 27, 2006. This correspondence represents that response.

The KNEC strongly disagrees with the draft report's primary findings and determinations on these stated audit elements:

- 1) Were KNEC participants eligible?
- 2) Were participants' training and employment outcome achieved?
- 3) Were reported costs allowable, allocable, and reasonable?

The response will explain the grounds for the KNEC rebuttal based on two primary factors:

- 1) The fundamental operating parameters provided by USDOL for a Demonstration-Pilot Grant initiative.
- 2) The regular USDOL program monitoring and guidance provided by the USDOL Grant Representative throughout the entire three year KNEC grant operating period.

USDOL Demonstration Grants are intended to pilot unique, innovative program designs that can be replicated in other areas. USDOL authorizes latitude, flexibility, and wider operating parameters for the grant recipient of Demonstration Grants. This inherent flexibility provides for the appropriate operational context to deliver a model pilot program.

The KNEC three year demonstration grants targeted extremely dense, severely impacted, concentrated urban areas of the cities of Kingston and Newburgh. The KNEC also focused on utilizing new and innovative partnerships to deliver workforce training programs. Those partnerships included faith-based and community based agencies, educational institutions, local government, non-profit (hospitals), and the private sector. The KNEC programs operated under the basic objectives and goals of the Workforce Investment Act and delivered services through that WIA design structure. At the same time, the KNEC utilized the inherent latitude and flexibility authorized for a demonstration grant to achieve WIA outcomes for a severely disadvantaged and poverty stricken population. The population included homeless, ex-offenders, TANF, low educational functioning, high school drop-outs, foster children and disabled. KNEC subcontractors were selected for their experience and effectiveness in providing workforce services to this population as well as their proximity and KNEC zone access for training participants. The KNEC programs most definitely reached a severely disadvantaged population that would not have been served through the traditional WIA delivery system. Since some of the KNEC subcontractors were not from traditional WIA service providers, their expertise with WIA eligibility documentations may not have been as comprehensive or detailed as other more experienced WIA subcontractors. This factor did not interfere with project effectiveness or achievement of necessary outcomes.

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In reference to the above WIA activities, the KNEC would like to quote from a USDOL-ETA Reference Manual issued to the KNEC Director, Barbara Lonczak. This manual is dated May 2003 and is titled "ETA-Reference Book One: Technical Assistance for Writing Earmark Grant Proposals."

On page IV, under section Allowable Activities, Eligible Participants, and Other Requirements the manual states:

"...due to their status as demonstrations, Earmark grants do enjoy some latitude compared to ongoing programs, and therefore may test new program approaches not enumerated in WIA's specific text. Congress funded Earmark grants under the PD&R [Pilot, Demonstration and Research] budget for this specific reason, to allow these projects to benefit from the flexibility of section 171, thereby providing Earmarks the necessary leeway to pursue innovative ideas and projects in the workforce investment area."

On page V the manual states that Earmark Grants should prioritize service to:

"d. Evaluating and improving job retention programs and services, with a special focus on former welfare recipients and the hard to serve."

"h. Improving interventions to assist the hardest-to-serve, including welfare recipients and the homeless."

Also on page V under "Eligible Participants":

"Anyone in need of services to gain employment, sustain employment, or upgrade their skills to expand their employment opportunities is eligible for services from an earmark grant."

Under the "Eligible Participants" section, WIA, section 171 identifies the poverty target groups to be served through an Earmark grant. The groups listed in this section are identical to the groups identified by KNEC for workforce services.

The second fundamental disagreement that KNEC has with the OIG's Discussion Draft Audit Report is that the USDOL Grant Officer Technical Representative Ms. Adie Koby closely monitored the three year KNEC grant. The USDOL GOTR issued field monitoring reports (dated 10-16-02 and 07-25-03, attached) that never mentioned any major, significant problems with WIA eligibility determination or documentation, EZ zone residence status, cost allowability or cost allocability. In fact, the report highlights much of KNEC's success with project outcomes, innovation strategies, and ability to serve severely disadvantaged populations.

In quoting from the 10-16-02 report, the GOTR states that:

"We found that KNEC has had remarkable success in achieving the goals of the grant and has shown flexibility in changing direction and emphasis, as the situation requires."

"Overall, the project exceeded its original performance goals with a cost below the budgeted amount."

"During the visit we had the opportunity to meet and interview students, administrators and staff from the various programs who are involved in the project. Both employers as well as the participants expressed satisfaction with the program."

"The projects are aimed at residents of the Enterprise Communities and the Empowerment Zone (EC/EZ), and the goal is to provide services to 230 such residents. Services included pre-employment assessment, job readiness and career planning for 180 Adults and 50 youth. The programs have been successfully implemented. Eight programs are on target – meeting or exceeding their goals..."

"Ulster County Board of Cooperative Education ... The program successfully exceeded its original goal."

2

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"Ulster County Community College/Everette Hodge Center...The center is active and over 800 customers have accessed the center."

"Best Resource Center, Inc. ...The center successfully accomplished its goals with a high placement rate."

In the 7-25-03 USDOL GOTR field Monitory Report, the report states that:

"In general, the reviewer found that KNEC continues to successfully enhance employment opportunities and provides training in demand occupations in order to ensure self sufficiency and community stability."

"During the visit the GOTR had the opportunity to meet and interview students, administrators and staff from the various programs who are involved in the project. Both employers as well as the participants expressed satisfaction with the program."

Both USDOL GOTR Reports indicated that the KNEC programs consistently met project goals, provided service to an eligible, zone resident population, conformed to subcontractor objectives, and most importantly met or exceeded WIA earmark demonstration outcomes. As stated previously, there is no mention in either report of problems with any of the above elements.

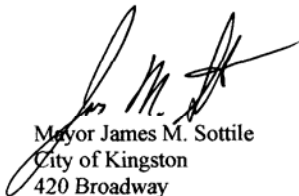
Summary:


The KNEC is proud of its three year Earmark Demonstration accomplishments. We believe that this Audit Response clearly counters and refutes the Discussion Draft Audit Report. The grounds for our disagreement are clearly stated in this correspondence. The KNEC would like an opportunity to meet with USDOL in NYC. If you prefer we would invite USDOL staff up to Newburgh or Kingston to have an open and sincere discussion on the KNEC program and the audit response. We are willing to share with USDOL representatives examples of KNEC contracts to review for eligibility, zone status, contract cost allowability and allocability.

The KNEC is extremely interested in continuing a strong and productive working relationship with USDOL in the future. We would like to continue to apply for and receive Earmark funds because of the crucial need for workforce service in the cities of Kingston and Newburgh.

Please contact us as soon as possible, so that we can move ahead on addressing and resolving the draft audit and begin to work on new initiatives with USDOL.

Thank you for you time and attention.

  
Mayor James M. Sottile  
City of Kingston  
420 Broadway  
Kingston, New York 12401  
(845) 334-3902  
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Sincerely,  
  
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