

## 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.

Kingston Newburgh Enterprise Corporation  
October 25, 2006

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

Kingston Newburgh Enterprise Corporation  
October 25, 2006

"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.

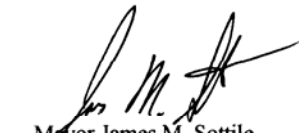
Summary:


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  
Fax (845) 334-3904

Sincerely,  
  
Mayor Nicholas Valentine  
City of Newburgh  
83 Broadway  
Newburgh, NY 12550  
(845) 569-7301  
Fax(845) 569-9700