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

EMPLOYMENT AND TRAINING ADMINISTRATION

PERFORMANCE AUDIT OF KENTUCKIANAWORKS' COMPETITIVE AND FORMULA WELFARE-TO-WORK GRANTS

Date Issued: March 30, 2007
Report Number: 04-07-001-03-386

U.S. Department of Labor
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BRIEFLY…

Highlights of Report Number 04-07-001-03-386, to the Assistant Secretary for Employment and Training

WHY READ THE REPORT

Welfare-to-Work (WtW) legislation passed in August 1997 authorized the Secretary of Labor to provide $3 billion in WtW grants. Formula grants were provided to States and competitive grants were awarded directly to local and community-based organizations. These grants were designed to aid welfare recipients with the least skills, education, employment experience and who lived in high poverty areas. This report discusses whether KentuckianaWorks adequately managed WtW grant funds and complied with participant reporting requirements.

WHY OIG DID THE AUDIT

We conducted a performance audit of the $7,240,468 of WtW competitive and formula grant funds awarded to KentuckianaWorks during the period October 1, 1998, through June 30, 2002. The purpose of our audit was to determine if KentuckianaWorks complied with regulatory requirements for the WtW grants in the areas of financial management and participant reporting.

READ THE FULL REPORT

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

http://www.oig.dol.gov/public/reports/oa/2007/04-07-001-03-386

March 2007

Performance Audit of KentuckianaWorks' Competitive and Formula Welfare-to-Work Grants

WHAT OIG FOUND

Our audit found that KentuckianaWorks did not adequately manage its WtW competitive grant funds and did not submit accurate and reliable participant data in its Quarterly Financial Status Reports (QFSR). We questioned $3,166,933 of costs related to contracts awarded by KentuckianaWorks without the required full and open competition in the bid process. We questioned $2,376,432 of these same costs because KentuckianaWorks did not ensure costs claimed by four of its grant partners were necessary and reasonable. We also found that ETA did not provide effective oversight of KentuckianaWorks' management of grant funds. Finally, we found that KentuckianaWorks over-reported the number of participants served, the number of participants retained in unsubsidized employment for 6 months, and total participants' wage gains.

WHAT OIG RECOMMENDED

We recommended that the Assistant Secretary for Employment and Training:

- Recover questioned costs of $3,166,933.

- Provide effective monitoring oversight to ensure that KentuckianaWorks reports accurate and reliable participant performance data for any current or future ETA grants.

In its response to the draft report, KentuckianaWorks strongly disagreed with our findings and recommendations.

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EXECUTIVE SUMMARY

The Welfare-to-Work (WtW) legislation passed in August 1997 authorized the Secretary of Labor to provide $3 billion in WtW grants to state and local communities. These grants were intended to serve welfare recipients with the least skills, education, employment experience and who lived in high poverty areas.

The Office of Inspector General conducted a performance audit of the $7,240,468 Federally funded WtW grants awarded to the Greater Louisville Workforce Investment Board, a government entity doing business as KentuckianaWorks. The audit scope covered the period from October 1, 1998, through June 30, 2002.

Our audit objective was to determine if KentuckianaWorks complied with regulatory requirements for WtW grants in the areas of financial management and participant reporting requirements. To accomplish this objective, we designed our audit tests to answer the following questions:

1. Did KentuckianaWorks adequately manage its WtW grant funds?

2. Did KentuckianWorks comply with participant reporting requirements by submitting accurate and reliable performance reports?

Results

1. KentuckianaWorks did not adequately manage its WtW grant funds. KentuckianaWorks did not conduct full and open competitions when awarding 33 contracts to grant partners of its WtW competitive grant. As a result, we question $3,166,933, the total expenditure amount of the 33 contracts net of supportive service costs.

   We questioned $2,376,432 of these same costs because KentuckianaWorks did not ensure costs claimed by four of its grant partners were necessary and reasonable, as required by the Office of Management and Budget Circular A-87. The questioned costs totaling $2,376,432 resulted from the following payments to the grant partners:

   - $1,375,940 paid to Career Resources, Inc. (CRI) despite the fact that CRI only served 10 percent of the participants it contracted to serve.

   - $397,687 paid to the Jefferson County Public Schools Department of Education and $267,805 paid to Seven Counties Services for services provided free of charge to the general public.

- $335,000 paid to the Transit Authority of River City for night transportation services with no evidence that WtW participants used the services and without conducting a cost benefit analysis to determine the benefits to WtW participants.

2. The Employment and Training Administration (ETA) did not provide effective oversight of KentuckianaWorks' management of grant funds.

3. KentuckianaWorks did not comply with participant reporting requirements to submit accurate and reliable performance reports. Specifically, KentuckianaWorks over-reported:

    - the number of participants served;

    - the number of participants retained in unsubsidized employment for 6 months; and

    - the total participants' wage gains.

Auditee Response

In response to the draft report, officials from KentuckianaWorks disagreed with the report's findings and recommendations. They stated that the report was not factually correct, omitted key facts, and was unrealistic in recommending the recovery of over $3 million from those who managed the grant to the best of their abilities under the direct supervision of ETA.

KentuckianaWorks' officials stated that they relied on information provided by ETA indicating that if grant partners were identified as providing specific services in the grant application, then competitive procurement was not required. Regarding the finding that KentuckianaWorks did not ensure costs claimed by four of its grant partners were reasonable and necessary, KentuckianaWorks' officials stated that any findings resulting from Federal and state monitoring efforts had been quickly resolved with corrective action. They noted that ETA conducted performance reviews of the grant and repeatedly approved plans and sanctioned their efforts. KentuckianaWorks' officials also disagreed with the finding that participants were incorrectly reported as served because they were not enrolled in a post-employment activity or did not receive any job retention services. KentuckianaWorks' officials stated that intensive case management services qualified as post-employment or job retention services.

KentuckianaWorks' response is included in its entirety in Appendix D.

OIG Conclusion

We considered KentuckianaWorks' response in its entirety and found no additional information was provided that materially affected the report. Therefore, the report findings and recommendations remain unchanged. The report's recommendations will be resolved during ETA's formal audit resolution process.

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

1. Recover questioned costs of $3,166,933, which represents the total expenditure amount, net of supportive services, for the contracts for which KentuckianaWorks did not conduct an open and competitive award process.

2. Recover questioned costs of $2,376,432 for unnecessary and unreasonable costs incurred by four of KentuckianaWorks' WtW competitive grant service providers.

Although recommendations 1 and 2 relate to separate findings, ETA must consider the amount of questioned costs linked to these recommendations concurrently to avoid any recovery of duplicate questioned costs. See Exhibits A and B for Schedules of Questioned Costs.

3. Provide effective monitoring oversight to ensure that KentuckianaWorks reports accurate and reliable participant performance data for any current or future ETA grants.

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U.S. Department of Labor

Office of Inspector General
Washington, DC 20210

Assistant Inspector General's Report

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We conducted a performance audit of $7,240,468 of Welfare-to-Work (WtW) competitive and formula grants awarded to KentuckianaWorks during the period October 1, 1998 through June 30, 2002. The purpose of the grants was to provide post-employment and job retention services necessary for WtW participants to sustain lasting employment.

Our audit objective was to determine if KentuckianaWorks complied with regulatory requirements for WtW grants in the areas of financial management and participant reporting requirements. To accomplish this objective, we designed our audit tests to answer the following questions:

1. Did KentuckianaWorks adequately manage its WtW grant funds?

2. Did KentuckianaWorks comply with participant reporting requirements by submitting accurate and reliable performance reports?

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

FINDINGS AND RESULTS

1. Did KentuckianaWorks adequately manage its WtW grant funds?

KentuckianaWorks did not adequately manage its WtW grant funds. During Fiscal Year 1998, KentuckianaWorks received WtW grant funds totaling $7,240,468 ($2,240,570 of formula grant funds passed through from the Commonwealth of Kentucky and a $4,999,898 competitive grant from ETA). KentuckianaWorks did not adhere to Federal regulations for its WtW competitive grant in the areas of procurement and contract management, and did not meet the standards for internal controls and allowable costs, which are key components of an effective financial management system. The Code of Federal Regulations (CFR) 29 CFR 97.20 (Standards for Financial Management Systems), states that grantees and subgrantees must have an adequate financial management system that includes internal and management controls necessary to ensure grant fund expenditures are allowable and authorized.

We questioned $3,166,933 in costs related to KentuckianaWorks' WtW competitive grants. Specifically, we found that KentuckianaWorks did not comply with regulatory requirements to conduct full and open competition when it awarded 33 contracts under its WtW competitive grant **(Finding 1)**. A summary of questioned costs related to these contracts is provided in Exhibit A.[1]

We questioned $2,376,432 of those same costs because KentuckianaWorks did not ensure costs claimed by four of its grant partners were necessary and reasonable, as required by the Office of Management and Budget (OMB) Circular A-87 **(Finding 2a – 2d)**. A summary of questioned costs related to these contracts is provided in Exhibit B.

We also found that ETA did not provide effective oversight of KentuckianaWorks' management of grant funds **(Finding 3)**.

Finding 1 - KentuckianaWorks did not comply with regulatory requirements to conduct full and open competition. KentuckianaWorks did not conduct full and open competition required by Federal regulations when it awarded 33 contracts to grant partners of its WtW competitive grant. None of the contract files we reviewed contained evidence that a competitive procurement process was followed. Consequently, we question $3,166,933, the total expenditure amount of the contracts (net of $203,577 expended directly from the resource bank to participants for supportive services, which is not questioned). Exhibit A lists these contracts, their associated expenditures, and identifies the contracts that included supportive services not questioned.

[1] Exhibit A lists 28 of the 33 contracts; the remaining 5 contracts had no associated expenditures.

The competitive grant project synopsis narrative states that grant funds would be coordinated with Temporary Assistance for Needy Families, Job Training Partnership Act, WtW formula grant funds, and other community resources. It further provides that services would be procured through a competitive process. Additionally, within the grant agreement, KentuckianaWorks provided assurance that it would fully comply with Federal procurement regulations at 29 CFR 97, including regulations at 29 CFR 97.36 (c) (Competition), which state:

> All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of Sec. 97.36.

Federal procurement regulations, as well as WtW competitive grant guidelines, mandate competitive procurement in selecting contractors to provide participant services. The regulations stress that proper procurement practices may help grantees and sub-grantees avoid unnecessary and duplicative items, and purchase goods and services at an economical and reasonable price.

KentuckianaWorks' grant partners were included in the WtW competitive grant application as service providers. KentuckianaWorks' management stated that inclusion of service providers in the competitive grant application constituted ETA's approval of their selection. However, inclusion of service providers in the grant application does not relieve the grantee from following Federal requirements, its own competitive procurement policy or ETA's instructions. Procurement by noncompetitive means can be allowed when any one of the following four rules pursuant to 29 CFR 97.36(d)(4) are met: 1) an item is available from only one source; 2) public emergency; 3) authorization of noncompetitive proposals; or 4) after the solicitation, competition is considered inadequate. Additionally, a cost analysis is required. KentuckianaWorks did not meet the aforementioned requirements.

ETA' official guidance on this subject was published in Training and Employment Guidance Letter 15-01 on March 22, 2002:

Question:

> If in preparing its grant proposal, an applicant for a competitive grant gets commitments from various partners to provide certain activities/services and names those partners in its grant application, is it then necessary for the applicant to go through a procurement process to select the providers subsequent to grant award?

ETA Response:

> ETA's selection of an application does not constitute a blanket endorsement of the listed partners/providers or the process by which they were selected. ETA in its evaluation and selection process assumes that

> the partners/providers listed in the applicant's submission were or will be selected in accordance with the applicable procurement rules and other requirements. Listing the names of the partners/providers in its grant application does not relieve an applicant from compliance with these requirements.

Federal regulations (29 CFR 97.36) and ETA's official policy require the need for full and open competition despite grant partners being approved on the grant application. Because KentuckianaWorks circumvented Federal required procurement processes, the requisite assurance of the highest quality of services at a fair price was not assured for contractors' services. As a result, we question $3,166,933, the total expended by KentuckianaWorks for all 33 contractors.

Finding 2 – KentuckianaWorks did not ensure costs claimed by four of its grant partners were necessary and reasonable. We question a total of $2,376,432 related to financial and procurement compliance, as well as program delivery problems, with four service providers. The questioned costs resulted because KentuckianaWorks did not ensure that key standards for an effective financial management system were met as required by 29 CFR 97.20.

In particular, KentuckianaWorks' officials did not exercise good management control over WtW contracts. Their financial monitoring was limited to a desk review of invoices submitted for allowable expenses. Programmatic monitoring of subcontractors consisted of a review of participant files to ensure that the participants were in the program and that the files contained the required paper work per their policy and procedures. The monitoring did not include reviewing the subcontractors' performance of the scope of work listed per the contract or evaluating the effectiveness of the contracts in meeting program goals. KentuckianaWorks renewed all major contracts without considering the level of performance under the original contracts.

OMB Circular A-87, Attachment A, Section C.1. *Factors affecting allowability of costs,* provides basic guidelines for determining the allowability of costs. To be allowable under Federal awards, costs must meet the following general criterion:

> a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

OMB Circular A-87, Attachment A, Section C.2 provides that a cost is reasonable if it does not exceed that which would be incurred by a prudent person in similar circumstances. In determining the reasonableness of a given cost, consideration should be given to:

a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.

We determined the "Allowable Costs" standard was a common issue in all questioned costs. This standard requires grantees and subgrantees to follow applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements to determine the reasonableness, allowability and allocability of costs. We questioned costs because we deemed they were excessive for the services provided and therefore unreasonable. With the exception of the issue in Finding 2c, a lack of adequate internal controls was determined to be common to all other issues in Finding 2 of this report. The standard for "Internal Control" requires grantees and subgrantees to maintain effective controls and accountability for all grant and subgrant cash, and to ensure that grant funds are used solely for authorized purposes.

Finding 2a - Reimbursement of $1,375,940 to Career Resources, Inc. (CRI) to provide case management services to custodial parents was unreasonable and the services provided were inadequate. CRI is a private nonprofit corporation which provides free services to job seekers through the Department of Labor (DOL) Workforce Investment Act (WIA) program. KentuckianaWorks entered into a contract with CRI to provide case management, post-employment, and job upgrade services to custodial parents who met the eligibility requirements of the WtW program. The initial contract period covered the period January 1, 1999 through June 30, 2001. The contract was budgeted at $1,025,904 with an expected enrollment of 3,270 participants.

Total expenditures of $837,794 were incurred under the contract. CRI provided case management services to 259 participants, significantly less than the 3,270 projected in the budget. While the number of participants reported served was only 8 percent of the proposed number, the cost incurred was 82 percent of the budgeted cost.

Despite the low number of participants served under the initial contract, KentuckianaWorks awarded CRI another contract, without competition, in the amount of $614,869 for the period July 1, 2001 through June 30, 2002. The second contract required CRI to serve a minimum of 536 participants, including 516 carryover participants who had been certified as WtW eligible and at least 20 new noncustodial participants. Given CRI had reported serving 259 WtW participants during the period January 1, 1999 through June 30, 2001, expectations that CRI would serve 536 participants under the new contract were unrealistic.

As with the initial contract, KentuckianaWorks awarded this second contract to CRI without full and open competition or a cost benefit analysis. Similar to the initial contract, the cost expended in relation to participants served was unreasonable. Specifically, CRI was reimbursed $538,146 (87 percent of the award amount) for administering the second contract through June 30, 2002, while only 68 new participants were reported as served. Under the initial and follow-on contract, a total

327 participants, only 10 percent of the participants CRI was contracted to serve[2], were reported as served at a cost of $1,375,940. We deem the cost to be unreasonable for the number of participants served.

In addition to the excessive amount spent per participant, we conclude that services received from CRI only indirectly related to post-employment services. Based on a review of the custodial parent case files, case managers did not enroll participants in post-employment activities, nor was there an indication they assisted participants to receive job upgrades.

KentuckianaWorks' management stated that they included intensive case management as post-employment services when they modified their contract. We found that "intensive case management services" were included in the contract; however, the contract did not define the extent of services to be provided.

Based on a review of the case files for custodial parents, case files included basic information regarding eligibility. In addition, case files contained case managers' written notes that documented the dates of contact and attempted contact with the participants. Contact was made with participants primarily to determine what supportive services the participants needed. If supportive services were needed, the clients were referred to the resource bank[3] that incurred additional overhead to pay for the supportive services. In many instances there was little or no contact with participants and participants were not referred for post-employment or supportive services. To be effective, case management activities must support the post-employment and retention services in order to maintain the participants in employment.

Finding 2b - WtW funds in the amount of $397,687 were not expended effectively by the Jefferson County Public Schools Department of Education. The Jefferson County Public Schools Department of Adult Education was reimbursed $397,687 in WtW funds for providing adult education training to WtW participants similar to training offered free to citizens of Jefferson County. The Jefferson County Public Schools Department of Adult Education offered comprehensive basic skills training, free of charge, in more than 50 locations throughout Jefferson County. The choice of attending day or evening classes made it accessible to Jefferson County citizens and the course design allowed students to progress at their own pace. After the completion of training, the County's Department of Adult Education also offered free GED testing. For WtW participants enrolled in employment activities (such as basic skills training, occupational skill training, English as a Second Language, or mentoring), WtW would have paid the

[2] A total of 3,290 participants were expected to be served by CRI. This is the sum of 3,270 custodial parents under the initial contract plus an additional 20 new noncustodial participants per the second contract. Therefore, the actual number of participants served of 327 represents 10 percent of 3,290 expected participants.

[3] The resource bank was established by Jefferson County, Department of Human Services to disburse funds to WtW participants for approved services. The resource bank funds covered short-term, emergency financial payments to help facilitate job retention and career advancement.

cost of transportation to attend these free classes and provided childcare services for participants while they attended classes.

Rather than provide participants with the means to attend these classes, KentuckianaWorks entered into a contract with Jefferson County Public Schools to provide a similar course. The course offered to WtW participants as an integral part of their career plans was named “Customized Home-Based Computer Skills.” The training encompassed loading software onto computers for both in-home and workplace instructional use in order to upgrade basic academic skills, such as reading, mathematics, and writing, in preparation for the GED test.

According to information provided by the KentuckianaWorks’ management, 61 participants were enrolled in the customized training. Forty-nine of the participants were reported to have completed the customized training at a cost per completion of $8,116. Five of the participants already had GEDs when entering the training, and only six participants completed their GEDs after taking the training.

Based on our review of the contract, 79 percent of the charges were for agency personnel. Three of the four staff members assigned to the initial contract were already employed by Jefferson County Public Schools Department of Adult Education.

KentuckianaWorks’ management stated, “while it is accurate to state that the staff assigned to administer this WtW program were already employed by the Board of Education, KentuckianaWorks did not reimburse the Board of Education for 100 percent of the salaries associated with these staff nor did the Board of Education staff spend 100 percent of their work time on WtW contracts.”

Based on the limited training results reported in relation to the cost incurred, and because similar free services were available to the citizens of Jefferson County through the Jefferson County Public School Department of Adult Education, we conclude that WtW grant expenditures were not necessary or reasonable.

Finding 2c - KentuckianaWorks did not conduct an appropriate analysis of the benefits to WtW participants prior to awarding contracts to the Transit Authority of River City (TARC). KentuckianaWorks awarded two contracts totaling $335,000 to TARC. The contracts required TARC to operate a bus route providing transportation services to WtW participants working between the hours of 11:00 pm and 5:30 am. The original contract was awarded to TARC for $300,000, with a 1-year extension for an additional $35,000. The contract files did not support whether KentuckianaWorks conducted an evaluation to determine if the services were needed, projected how many participants would utilize the bus service, or considered other transportation options.

The scope of the program in the original contract was to increase the capacity of the present transportation infrastructure by creating a night bus service throughout Jefferson County. The night bus service would improve WtW participants’ ability to connect with jobs in areas not served by regular bus routes.

The contract also provided for personalized transportation between customers' residences and worksites, with intermediate stops to accommodate child-care drop-offs or pickups. In order to obtain this service, a customer had to complete a personalized application. According to KentuckianaWorks' response to the draft report, no mechanisms existed for tracking the WtW participant applications for the night bus service until July 1, 2002. Reports provided by KentuckianaWorks for the period July 1, 2002 through June 30, 2003, state that 203 total personalized applications were received. Of the 203 personalized applications, only 39, or 19 percent, were submitted by WtW participants. KentuckianaWorks provided no information to verify if the WtW participants actually used the service or how many personalized trips were provided to each participant. In reviewing a sample of 76 participant files, we did not identify any participants utilizing the personalized transportation services.

In addition, based on our sample of 76 participants, only 14 participants received bus passes or transportation assistance; none of the 14 participants had night jobs. We conclude that although the night bus service may have benefited WtW participants, an appropriate analysis of the cost versus benefit of this activity should have led KentuckianaWorks to choose less costly alternative transportation methods.

KentuckianaWorks did not track participants who used the night bus service. Its contracts with TARC required TARC to track additional night bus hours beyond existing services and bill based on additional hours vehicles were used in operating the night bus system. However, the contracts did not require TARC to track usage by WtW participants.

KentuckianaWorks' officials stated:

> . . . there was no mechanism for TARC to request riders to declare whether they were WtW participants when they got on the bus. Therefore, all 727 WtW participants could have potentially ridden the night bus service. . . .

Conversely, we conclude there may have been no WtW participants riding the bus at night. Our review of participant files did not support that WtW participants used the service and KentuckianaWorks could not provide any additional documentation to support how many WtW participants used the service.

Finding 2d - KentuckianaWorks paid an excessive amount to Seven Counties Services for services that were not adequately measured and were provided free to citizens of the area. The Crisis and Information Center of Seven Counties Services offered confidential 24-hour, 7-day-a-week telephone crisis services to the public free of charge, including referral to other resources in the community. Despite the availability of these free services, KentuckianaWorks entered into a noncompetitively awarded contract with Seven Counties Services to operate a Crisis and Information Center for WtW participants in need of emergency services and crisis intervention.

In total, Seven Counties Services was reimbursed $267,805 through three noncompetitively awarded contracts with KentuckianaWorks. Reimbursements included $222,278 in salaries and fringe benefits (including $41,610 to staff the crisis resource line in the final contract). Other costs included telephone equipment and computer purchases. Under the contract from October 1, 1998 through June 30, 2000, the contracts provided for $10 per call relating to WtW participants.

The only identified performance measurement for evaluating WtW services was the number of calls relating to WtW participants. Although the contracts for the first 30 months had budgets for up to 11,373 calls overall, the actual number of calls received under these contracts was only 186. Based on the expenditures under the contracts, had there been 11,373 calls, the cost per call would have been $16. However, based on the 186 calls actually received, the average cost per call was $1,440.

The budget for the first contract provided for up to 3,304 calls during the initial 9-month period beginning October 1998. In May 1999, the contract was extended to March 31, 2000, with the budgeted number of calls reduced to 1,810. The contract was further modified in March 2000, with a budget increase to $199,400 and the period extended to June 30, 2000. The number of anticipated calls was projected to increase to 3,242. However, through the 21 months of the contract, there were only 119 calls. The total amount expended under this contract was $112,091.

Despite the fact that the expected volume of calls never materialized, KentuckianaWorks entered into a larger noncompetitively awarded contract with Seven Counties Services for the period July 1, 2000 through June 30, 2001. This $250,000 contract provided for service to both WtW and WIA participants. For this contract, KentuckianaWorks was billed for only 67 calls. Total reimbursement under the contract was $71,041.

After receiving only 67 calls the previous year, KentuckianaWorks entered into yet another noncompetitively awarded contract with Seven Counties Services. The contract amount was $100,000 for the period July 1, 2001 through June 30, 2002. This contract did not provide a per call charge, but included a charge of $41,610 for providing access to the crisis resource line and an additional charge of $100 per visit for face-to-face interventions. An analysis of the final expenditure report shows there were no face-to-face visits billed in the total charges of $84,673.

Based on a review of services provided to the citizens of Jefferson County through Seven Counties Services, we conclude that WtW funds were not used effectively for WtW participants by Seven Counties Services. WtW funds were used to pay salaries for employees already employed by Seven Counties Services, as well as other expenses associated with operating the crisis hotline, which already existed and provided services free of charge to the citizens of the respective counties.

Finding 3 - ETA did not provide effective oversight of KentuckianaWorks' management of grant funds. ETA did not reduce KentuckianaWorks' competitive grant award when it became apparent that the number of participants served fell substantially below agreed upon goals. The grant award's modification, effective July 2001, focused on determining the level of service to be provided by KentuckianaWorks. However, ETA did not define the extent of services to be provided in order to reasonably determine whether the modification should have included a funding reduction. Not until July 2002, did ETA issue a monitoring report on KentuckianaWorks' competitive grant operations. In the monitoring report, ETA finally requested a budget reduction, but never followed through with the request. We conclude ETA's monitoring of KentuckianaWorks' management of grant funds was ineffective.

KentuckianaWorks was awarded $4,999,898 in competitive WtW grant funds in July 1998. The competitive grant's goal was to provide 4,000 participants with post-employment and job retention services. Therefore, the original estimated cost per participant was $1,250. The grant limited the pool of eligible participants to individuals from Louisville/Jefferson County who were already employed.

As of March 31, 2001, the last quarter before the initial competitive grant expired, KentuckianaWorks had expended $1,599,401 (32 percent) of the grant amount. Yet, KentuckianaWorks had only served 335 participants (8 percent) of the proposed 4,000 participants. On average, KentuckianaWorks spent $4,774 per participant[4] compared to the original estimated cost of $1,250.

KentuckianaWorks realized that the original application for the competitive grant overestimated the number of participants to be served and formally requested a no-cost modification to the competitive grant on May 23, 2001. Specifically, KentuckianaWorks requested reducing the number of participants from 4,000 to 425, expanding the geographic service area to include six additional counties surrounding the City of Louisville, and extending the grant period to June 30, 2003. These steps illustrate the difficulty KentuckianaWorks had finding eligible participants to serve.

Additionally, according to the grant modification's request, KentuckianaWorks stated:

> Upon those findings and direction from our Grant Officer Technical Representative, we plan to focus program efforts on intensely serving eligible non-custodial parents, as well as intensely serving those participants in all eligible populations other than non-custodial who are

[4] In addition to the competitive funds, formula grant funds were also expended on these participants. The number of participants to be served under the formula grant was established only at the State level, no goal was set specifically for KentuckianaWorks. We, therefore, have limited our analysis in this finding to the competitive grant.

> enrolled and currently being served as of May 25, 2001. . . . The additional time requested for grant extension to June 30, 2003, benefits the delivery of services to Welfare-to-Work participants by allowing a continuation of resources and services, in a more intense fashion. . . .

ETA was also aware that the number of participants served fell significantly short of the expected number of participants. ETA approved the requested modifications, effective July 8, 2001, except changed the revised participant goal to 1,500. This represents a 63 percent decrease from the original goal of 4,000 participants to be served. ETA took steps to assist KentuckianaWorks in meeting a more realistic participant goal; however, it did not take steps to reduce funding when the expected participant population failed to materialize. Because the funding remained constant while the budgeted number of participants decreased, the budgeted cost per participant increased to $3,333 after the modification. This represents an increase of over 150 percent from the original award's cost per participant served.

The grant modification's Statement of Work listed services to be provided by KentuckianaWorks during the extension of WtW funding. Most of the services listed were supportive services or training for participants. Therefore, the total of these variable costs depended upon the needs of the participants or their interest in receiving the training. KentuckianaWorks only had control of costs associated with two of the services listed in the modified Statement of Work: Intensive Case Management, and Drug and Alcohol Awareness Training for Case Managers and Participants' Employers. It is unlikely that the Drug and Alcohol Awareness Training would be a recurring cost. ETA and KentuckianaWorks did not define or explain what was meant by "Intensive Case Management" services.

KentuckianaWorks' intentions to intensify services to existing participants failed to materialize. ETA's monitoring report dated July 10, 2002, 1 year after the modification became effective, characterized KentuckianaWorks' competitive grant as having serious problems. Based on the files reviewed by ETA, there was no evidence of delivery of services, intensive or otherwise. The ETA monitor noted there was no documentation of referrals to job retention or other supportive services. The monitor could not determine the activities provided by paid contractors.

ETA's monitoring report also stated:

> Although the performance goals were decreased to 1,500, . . . there is also no indication that a revised budget was submitted or approved to reflect a decrease in funding due to the decrease in the total number of clients to be served.

KentuckianaWorks responded on August 30, 2002:

> . . . A revised budget starting with the date of award through the requested extension period . . . was submitted and approved for

> cumulative expenditures. Negotiations surrounding development of the current modification focused on a service level the Department would accept given the total amount of funding awarded. There was no communication between the grantee (KentuckianaWorks) and the Department that a reflective decrease in funding was being considered or was to be proposed.

Maintaining the original budget amount because KentuckianaWorks would provide "intense" services is not justified. An increase in total variable costs associated with supportive services or participant training would be unlikely, given the fact that the number of participants to be served had been reduced 63 percent. Without a clear understanding of the meaning of "Intensive Case Management" services, ETA could not effectively determine the cost of providing these services. At the time of the modification, ETA should have required KentuckianaWorks to submit a revised budget with reduced funding amounts.

ETA did not request a reduced budget until 1 year prior to the grant's expiration; 4 years after KentuckianaWorks had been operating with the WtW funds. In the end, KentuckianaWorks continued to operate with the original award amount of $4,999,898 despite having serious problems serving eligible WtW participants. This resulted in a budgeted cost per participant of $3,333. The actual cost per participant for the competitive grant was $4,034 using June 30, 2002, Quarterly Financial Status Report (QFSR) data.[5]

More timely and effective oversight by ETA of KentuckianaWorks' budget and operations could have prevented the excessive actual cost per participant. Because the WtW program has expired, we have included no recommendations related to ETA's monitoring of the program.

Auditee Response

In response to the draft report, the Executive Director of KentuckianaWorks disagreed with findings 1 and 2. He stated that the findings were not factually correct, omitted key facts, and were unrealistic in recommending the recovery of over $3 million from those who managed the grant to the best of their abilities under the direct supervision of ETA.

Regarding the finding that KentuckianaWorks did not comply with regulatory requirements to conduct full and open competition, the Executive Director stated that if grant partners were identified as providing specific services in the grant application, then competitive procurement was not required. He stated that KentuckianaWorks relied on information provided on ETA's website of Questions and Answers, dated

[5] KentuckianaWorks reported in the June 30, 2002, QFSR cumulative expenditures of $2,932,807 with a reported total participants served of 727; therefore, the cost per participant amount was $4,034.

September 3, 1998. According to the Executive Director, Question and Answer CG17 stated:

> CG 17. If in preparing its grant application, a competitive grantee gets commitments from various partners to provide certain of the grant activities/services and then actually names those partners (subrecipients) as the entity which will provide the service/activity in its grant application, is it then necessary for the grantee to go through a competitive procurement process to select the provider? (9/03/98)
>
> A. NO! ETA's approval and funding of the grant application has the effect of approving the grantees (sic) selection of the named partner/subrecipient to provide the specified service/activity.

The Executive Director further stated that this guidance from ETA was issued after KentuckianaWorks and other WtW grantees sought clarification on this issue.

Regarding the finding that KentuckianaWorks did not ensure costs claimed by four of its grant partners were necessary and reasonable, the Executive Director stated that both Federal and state representatives repeatedly monitored KentuckianaWorks and any findings cited as a result of the monitoring were resolved with corrective action. The Executive Director also stated that ETA conducted performance reviews of the grant and repeatedly approved plans and sanctioned their efforts. In addition, the Executive Director stated that the WtW grant was not structured as a performance-based contract linking funding to performance. He further contended that ETA's pressure to set aggressive goals contributed to KentuckianaWorks' inability to serve the number of WtW customers originally targeted.

KentuckianaWorks' response to the draft report is included in its entirety as Appendix D.

OIG Conclusion

We have considered KentuckianaWorks' response to the draft report. Our conclusion is as follows:

Finding 1 - We continue to question $3,166,933, the total expenditure amount of the contracts, because KentuckianaWorks did not comply with regulatory requirements to conduct full and open competition.

In its response to the draft report, KentuckianaWorks stated that it relied on information provided on ETA's website of Questions and Answers, dated September 3, 1998. This guidance stated that it was not necessary to go through a competitive procurement process if the partner/subrecipient had been named in its grant application. Although ETA originally put out this guidance, ETA's Questions and Answers publications contain disclaimers stating that Questions and Answers guidance does not represent official

DOL policy. Questions and Answers provide information to the public until official policy is released in the form of Training and Employment Guidance Letters.

ETA corrected its guidance on this issue on January 29, 1999, when it published a Question and Answer on its WtW website stating that partners/providers listed in the applicant's grant proposal should be selected in accordance with applicable procurement rules. This corrected guidance became official policy with the issuance of TEGL 15-01, dated March 22, 2002. TEGL 15-01 required grant partners to competitively bid for contracts.

We relied on the Federal regulations at 29 CFR 97.36 and ETA's TEGL 15-01 in reaching our conclusion that KentuckianaWorks did not comply with regulatory requirements to conduct full and open competition in selecting contractors to provide participant services. The ETA Grant Officer will make the final decision on the allowability of the costs incurred by KentuckianaWorks' contractors.

Finding 2 - We continue to question $2,376,432 related to financial and procurement compliance, as well as program delivery problems, with four service providers. We conclude KentuckianaWorks did not have adequate management controls necessary to ensure grant fund expenditures were allowable and authorized. We do not contend that the WtW grant with KentuckianaWorks was a performance-based contract. However, all Federal grantees and subgrantees are required to follow applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements regarding the reasonableness, allowability and allocability of costs.

The report findings remain unchanged. The recommendations will be resolved during DOL's formal audit resolution process.

Recommendations

We recommend the Assistant Secretary for Employment and Training:

1. Recover questioned costs of $3,166,933 for the total reimbursements, net of supportive services, to WtW competitive grant partners because KentuckianaWorks did not adhere to a full and open competitive procurement process when awarding contracts to these service providers.

2. Recover questioned costs of $2,376,432 for issues related to contracts awarded to four KentuckianaWorks' WtW competitive grant partners. Specifically, the Assistant Secretary for ETA should recover:

   - $1,375,940 of reimbursements to Career Resources, Inc., for providing case management services to custodial parents found to be excessive in cost and the services provided inadequate.

- $397,687 of reimbursements to the Jefferson County Public School Department for providing training similar to adult education offered free to the public.

- $335,000 of excessive transportation costs reimbursed to Transit Authority of River City without conducting a cost benefit analysis to determine the benefits to WtW participants and without evidence to support WtW participant usage.

- $267,805 in excessive reimbursements to Seven Counties Services for services related to a crisis management center that were provided free of charge to citizens of the area.

Although recommendations 1 and 2 relate to separate findings, ETA must consider the amount of questioned costs linked to these recommendations concurrently to avoid any recovery of duplicate questioned costs. Both recommendations contain questioned costs that are common to the contracts awarded to KentuckianaWorks' WtW competitive grant partners.

FINDINGS AND RESULTS

2. Did KentuckianaWorks comply with participant reporting requirements by submitting accurate and reliable performance reports?

KentuckianaWorks' June 30, 2002, QFSR performance data were inaccurately reported. Grant recipients were required to provide ETA with cumulative performance data via their QFSR. We selected a random sample of 76 participant files to test the accuracy and reliability of data reported on the QFSRs submitted to ETA. KentuckianaWorks provided post-employment and job retention services to participants on the condition that the participants were employed when receiving WtW services. KentuckianaWorks reported serving 727 participants on its June 30, 2002, QFSR. KentuckianaWorks also reported that 429 out of the 727 participants enrolled in the WtW program were retained in unsubsidized employment for at least 6 months.

Performance data were inaccurately reported. Based on our projection of the results of our testing of the 76 participant files in our sample, we are 90 percent confident that between 204 and 331 of the 727 participants were incorrectly reported as served because they were not enrolled in a post-employment activity or provided any job retention services. See Exhibit C (Attribute A) for details of our testing results.

Post-employment services, according to the regulations cited at 20 CFR 645.220(e), are provided after an individual is employed and include the following:

- Basic education skills training
- Occupational skills training
- English as a Second Language training
- Mentoring

KentuckianaWorks' management stated that they provided intensive case management services to participants and "post employment services included intensive case management services." In our opinion, "intensive case management" in and of itself does not constitute a post-employment or retention service. This assertion is supported by WtW regulations. The regulations at 20 CFR 645.220(h) provide, in part, that case management may be incorporated in the design of allowable activities including, job readiness, vocational education training, employment activities, post-employment activities or job retention activities. The intent of case management was to facilitate these activities rather than act as a stand alone service.

As a result, we conclude KentuckianaWorks overstated the number of participants who were provided post-employment and retention services.

Retention data were inaccurately reported or missing from files. Of the 76 cases sampled, KentuckianaWorks claimed 41 of the participants had been retained in unsubsidized employment for 6 months. We reviewed the 41 case files and found that only 10 participants (24 percent) were accurately reported on the June 30, 2002, formula and cumulative grants' QFSR lines titled Retained 6 months (2 quarters) in Unsubsidized Employment. We found that the remaining 31 participants' employment period did not meet the definition of 6 month retention or there was not adequate documentation to substantiate that the participants had been retained in unsubsidized employment for 6 months from the date of their first WtW service.

Based on our review of KentuckianaWorks' case files, a participant's retention date was considered the first day of employment, even if the participant had not yet received WtW services and entered the WtW program. KentuckianaWorks' management stated, **"**they believed the case files contained sufficient documentation to warrant substantiation of job retention for 6 months."

KentuckianaWorks should have reported only those individuals who were employed in unsubsidized employment upon program entry and had been retained 6 months after program entry on the QFSR's lines titled "Retained 6 months [2 quarters] in Unsubsidized Employment."

Further, based on our projection of the results of our sample, we are 90 percent confident that between 270 and 401 of the 727 participants reported as served had retention data missing. See Exhibit C (Attribute B) for details of our testing results.

Wage gain data were inaccurately reported. We found 31 of the 41 individuals (75 percent) reported on the QFSR's lines titled Earnings Gained in 6 months (2 quarters) Following Placement in Unsubsidized Employment did not meet the definition of "Earnings Gained in 6 months Following Placement in Unsubsidized Employment." Based on information available in the case files, the participants were not employed 2 quarters following the base quarter in which they received their first WtW services.

KentuckianaWorks reported on its June 30, 2002 competitive grant QFSR that 429 participants had retained unsubsidized employment for 2 quarters. On the same QFSR, KentuckianaWorks reported $4,569,280 as the total wage gain for participants employed in the retention quarter. This amounts to an average wage gain of $10,651 between the base quarter and the retention quarter.[6] Of the 41 case files in our sample, we found that 10 participants were accurately reported on the June 30, 2002, formula and cumulative grants' QFSR lines titled "Retained 6 months [2 quarters] in Unsubsidized Employment." These 10 participants had actual wage gains averaging $446 in the retention quarter.

[6] The quarter that a participant is either placed in unsubsidized employment or enters the WtW program with unsubsidized employment is considered the "base" quarter. ETA defines retention as "when an eligible individual is placed in unsubsidized employment and remains in the workforce for six months with earnings in the two consecutive quarters following the base quarter."

When determining the average wage gain, KentuckianaWorks calculated the base quarter wages by multiplying the hourly rate by the number of hours worked per week. This product was then multiplied by the number of weeks worked in the quarter. KentuckianaWorks calculated wages in subsequent quarters by multiplying the hourly rate by the number of hours worked in a week. This product was then multiplied by 12 weeks per quarter, not necessarily the number of weeks actually worked.

Consequently, even if no actual hourly wage increases happened for participants between the base quarter and the retention quarter, KentuckianaWorks would most likely overstate wage gains. This occurred because a full quarter of wages was attributed to each participant if they worked during any portion of the retention quarter. Therefore, wages were overstated for the retention quarter. Yet, wages for each participant during the base quarter reflected the actual amount earned.

Errors in reporting participants served, participants retained, and wage gains distort the program's performance. Inaccurate performance reporting may lead to inappropriate funding choices for this and future projects.

Auditee Response

In response to the draft report, the Executive Director of KentuckianaWorks disagreed that participants were incorrectly reported as served because they were not enrolled in a post-employment activity or did not receive any job retention services. He stated that intensive case management services qualified as post-employment or job retention services. The Executive Director also stated that the availability and consistency of guidelines and technical assistance from the U. S. Department of Labor were lacking. As a result, KentuckianaWorks had no choice but to record, track and report data to the best of their abilities. According to the Executive Director, the receipt of technical assistance well into the years of the grant did not allow for consistency and accuracy of reporting over the entire grant period.

KentuckianaWorks' response to the draft report is included in its entirety as Appendix D.

OIG Conclusion

The finding remains unchanged. We conclude that intensive case management in and of itself does not qualify as post-employment services. Federal regulations, 20 CFR 645.220(h), state that case management may be incorporated in the design of allowable activities, including job readiness, vocational education training, employment activities, post-employment activities or job retention activities. The intent of case management is to facilitate these activities rather than act as a stand-alone service.

Recommendation

We recommend the Assistant Secretary for Employment and Training:

3. Provide effective monitoring oversight to ensure that KentuckianaWorks reports accurate and reliable participant performance data for any current or future ETA grants.

Elliot P. Lewis

Elliot P. Lewis
May 30, 2006

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Exhibits

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Exhibit A

SCHEDULE OF QUESTIONED COSTS -- IMPROPER PROCUREMENT PRACTICES

CONTRACT NUMBER	CONTRACTOR	EXPENDITURE	QUESTIONED COSTS
501-127-1	Board of Education of Jefferson County	$248,928	$248,928
511-045-0	Board of Education of Jefferson County	120,320	120,320
510-045-0	Board of Education of Jefferson County	28,439	28,439
98010	Career Resources, Inc.	837,794	837,794
501-044-1	Career Resources, Inc.	538,146	538,146
98030	Community Coordinated Child Care (4 C's)	47,797	47,797
99128	Consumer Credit Counseling	4,200	4,200
98118	Goodwill Industries	74,804	74,804
501-091-1	Jefferson County Dept. of Human Services	241,366	241,366
501-091-0	Jefferson County Dept. of Human Services	117,498	117,498
98018	Jefferson County Dept. of Human Services	70,303	70,303
501-068-1	Jefferson County Dept. of Human Services -- Resource Bank	163,005	54,912 (**)
501-068-0	Jefferson County Dept. of Human Services -- Resource Bank	115,686	33,361 (**)
98108	Jefferson County Dept. of Human Services -- Resource Bank	84,989	71,830 (**)
98078	Jewish Family and Vocational Service of Louisville, Inc.	20,608	20,608
501-040-0	Legal Aid Society, Inc.	7,158	7,158
501-040-1	Legal Aid Society, Inc.	5,105	5,105
98038	Legal Aid Society, Inc.	105	105
501-048-1	Seven Counties Services, Inc. d/b/a Jefferson Alcohol & Drug Abuse Ctr	28,758	28,758
501-048-0	Seven Counties Services, Inc. d/b/a Jefferson Alcohol & Drug Abuse Ctr	7,840	7,840
501-093-0	Seven Counties Services, Inc. d/b/a Jefferson Alcohol & Drug Abuse Ctr	1,981	1,981
98088	Seven Counties Services, Inc. d/b/a Jefferson Alcohol & Drug Abuse Ctr	400	400
98098	Seven Counties Services, Inc.	112,091	112,091
501-011-1	Seven Counties Services, Inc.	84,673	84,673
501-011-0	Seven Counties Services, Inc.	71,041	71,041
501-093-1	Seven Counties Services, Inc.	2,475	2,475
98020	Transit Authority of River City (TARC)	300,000	300,000
511-014-1	Transit Authority of River City (TARC)	35,000	35,000
	Total Amount Audited	$3,370,510	
	Less: Supportive Services (**)	(203,577)	
	Total Questioned Costs		$3,166,933

** Total supportive services = $108,093 + $82,325 + $13,159 = $203,577.

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Exhibit B

SCHEDULE OF QUESTIONED COSTS -- CONTRACTS WITH EXCESSIVE OR UNNECESSARY COSTS			
CONTRACTOR	**ISSUE**	**EXPENDITURES**	**QUESTIONED COSTS**
Career Resources Services, Inc. *(Finding 2a; page 8)*	Excessive costs and inadequate services for providing case management services to custodial parents	$1,375,940	$1,375,940
Jefferson County Public Schools Department of Education *(Finding 2b; page 9)*	Excessive and unnecessary costs for providing training similar to adult education offered free to citizens of Jefferson County	397,687	397,687
Transit Authority of River City *(Finding 2c; page 10)*	Excessive costs and lack of evidence of WtW participant usage; Contract awarded without an appropriate analysis conducted to determine the benefits to WtW participants	335,000	335,000
Seven Counties Services *(Finding 2d; page 11)*	Excessive costs for services that were not adequately measured and were offered at no cost to the public by other county programs	267,805	267,805
	TOTAL COSTS	**$ 2,376,432**	**$ 2,376,432**

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Exhibit C

STATISTICAL PROJECTION TABLE FOR KENTUCKIANAWORKS' PARTICIPANT PERFORMANCE REPORTING

Attribute Type	A	B
Universe Size	727	727
Sample size	76	76
Occurrence found	28	35
Attribute point estimate	36.80%	46.10%
Sampling error	5.27%	5.45%
Lower Limit - 90% Confidence	28.11%	37.11%
Upper limit - 90% Confidence	45.49%	55.09%
Projected Cases Lower Limit - 90% Confidence	204	270
Projected Cases Upper Limit - 90% Confidence	331	401

Attribute type

A. The participant did not receive WtW post-employment or job retention services, but was counted as being served.

B. Retention data missing.

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Appendices

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Appendix A

BACKGROUND

Welfare-to-Work (WtW) Grants

Provisions of the Balanced Budget Act of 1997 authorized the U.S. Department of Labor (DOL) to award $3 billion in WtW grants to states and other organizations.

The WtW program assisted states and local communities by providing transitional employment assistance to move hard-to-employ recipients of Temporary Assistance to Needy Families (TANF) into lasting unsubsidized jobs and economic self-sufficiency. Congress identified hard-to-employ TANF recipients as "welfare recipients who have the least skills, education, employment experience and who live within high poverty areas."

The Employment and Training Administration (ETA) provided states with WtW formula grants. ETA also provided WtW funds directly to local and community-based organizations through competitive grants. Interested organizations competed by submitting proposals to serve WtW participants. ETA funded those proposals that appeared to have the most merit.

Principal Grant Requirements and Criteria

Section 403 (a) (5) C (ii) of the Act required at least 70 percent of a WtW grant award benefit hard-to-employ individuals. Not more than 30 percent of the funds could be spent assisting individuals with characteristics associated with long-term welfare dependence. In 1999, amendments of WtW legislation removed the requirement that long-term TANF recipients must meet additional barriers for employment in order to be eligible for WtW. Therefore, TANF recipients became eligible if they received assistance for at least 30 months (whether consecutive or not) or if they were within 12 months of exhausting or had exhausted their TANF benefits. Noncustodial parents were eligible if: (1) they were unemployed, underemployed, or had difficulty paying child support obligations; (2) their minor children were eligible for, or received TANF benefits (with a priority for parents with children who were long-term recipients), received TANF benefits during the preceding year, or were eligible for, or received assistance under the Food Stamp program, the Supplemental Security Income Program, Medicaid, or the Children's Health Insurance Program; and (3) the noncustodial parent entered into a personal responsibility contract. Under the personal responsibility contract, the noncustodial parent committed to cooperating in establishing paternity and paying child support, participating in services to increase their employment and earnings and support their children. Grantees were required to consult with domestic violence organizations in developing projects to serve noncustodial parents.

In addition to the general eligibility requirements, KentuckianaWorks required participants to be employed upon entry into the program. Post-employment services offered under the program included: 1) basic educational skills training; 2) occupational skills training; 3) English as a Second Language training; and 4) mentoring. Services to support job retention included, but were not limited to, transportation assistance, substance abuse treatment (not medical treatment), child care assistance, emergency or short-term housing assistance, and other supportive services.

Federal Regulations at 20 Code of Federal Regulations (CFR) 645.240 provided that formula and direct competitive grant recipients must report financial and participant data to DOL quarterly.

KentuckianaWorks Formula and Competitive Grants

During Fiscal Year 1998, the State of Kentucky was awarded $17,722,913 with a matching requirement of $8,861,457, to administer the WtW formula grant. The State passed through $2,240,570 to KentuckianaWorks[7]. For the passed-through amount, the State assumed responsibility for all matching requirements. KentuckianaWorks also received a WtW competitive grant in the amount of $4,999,898. The formula grant and the competitive grant were combined and accounted for as a single funding stream of $7,240,468.

The formula grant's period of performance was July 1, 1998 through April 22, 2003. The competitive grant period of performance was October 1, 1998 through June 30, 2003. KentuckianaWorks merged funding from both grants and established a combined WtW project. Under the formula grant, the State's goal was to enroll 5,551 participants, with no specific goals required for the local boards. KentuckianaWorks established an enrollment goal for the combined project of 4,000 participants. That goal was modified to 1,500 participants in July 2001 without any reduction in funding. Consequently, the proposed cost per participant was projected to be $3,333.

The purpose of KentuckianaWorks' combined grants was to provide services to 4,000 participants already employed over a 2 ½-year period. KentuckianaWorks' grant application stated objective was to provide post-employment services and job retention services along with support necessary for sustaining lasting employment.

KentuckianaWorks contracted with Career Resources Inc. (custodial parents), and Jefferson County Department of Human Services (noncustodial parents) to provide recruitment, case management and post-employment services to eligible WtW custodial and noncustodial parents.

[7] KentuckianaWorks, a governmental agency within the metropolitan City of Louisville, is located at 410 West Chestnut Street, Suite 200; Louisville, Kentucky 40202.

Appendix B

OBJECTIVE, SCOPE, METHODOLOGY AND CRITERIA

Objective

Our audit objective was to determine if KentuckianaWorks complied with regulatory requirements for WtW grants in the areas of financial management and participant reporting requirements. To accomplish our objective, we designed our audit tests to answer the following:

1. Did KentuckianaWorks adequately manage its WtW grant funds?

2. Did KentuckianaWorks comply with participant reporting requirements by submitting accurate and reliable performance reports?

Scope

We conducted a performance audit of KentuckianaWorks, the Greater Louisville Workforce Investment Board, located in Louisville, Kentucky. Our audit period started when KentuckianaWorks' formula and competitive grants began operations on October 1, 1998. Our audit included accrued expenditures totaling $5,374,588 and a reported 727 participants served through June 30, 2002. Fieldwork began October 29, 2002, and ended on May 30, 2006. Fieldwork was suspended during the periods of September 2004 to March 2005 and again from June 2005 to January 2006 while the Office of Inspector General (OIG) addressed other priorities and demands on the organization.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards for performance audits and included such tests as we considered necessary to satisfy the audit's objective.

Methodology

To accomplish our objective, we:

- Reviewed prior single audit reports for the Commonwealth of Kentucky and the City of Louisville for the years ending June 30, 1999, June 30, 2000, and June 30, 2001.

- Relied on the single auditors' work, the extent of testing performed, and the amount of documentation examined to evaluate KentuckianaWorks' performance and determine if they complied with WtW legislation and regulations.

- Reviewed ETA's monitoring reports and technical guidance documents, as well as interviewed KentuckianaWorks' staff to determine guidance provided by ETA.

- Reviewed management's internal controls to determine their effectiveness and reliability for providing reasonable assurance that the operations were in compliance with applicable laws and regulations and that the financial and performance data reported were reliable.

- Reviewed and compared the Quarterly Financial Status Report (QFSR) dated June 30, 2002, with a participant listing generated by KentuckianaWorks to validate that all participants were included in the universe and the data were reliable.

- Reviewed the QFSRs to determine the total number of participants who had been classified as: Served; Employed in Unsubsidized Employment when Entering WtW; and Retained 6 Months in Unsubsidized Employment.

- Selected a random sample to determine if the unsubsidized employment classifications reported were accurate and participants met eligibility requirements.

- Reviewed a QFSR and tested financial transactions of the following costs: Administrative – Salary and Fringe Benefits Costs, Administrative – Other Direct Costs; Technology Costs; Participant Costs; and Contractor Costs. We selected a judgmental sample to determine if the costs reported were accurate and complied with OMB's cost principles.

Participant Reporting Compliance: We used a statistical sampling method that allowed us to project errors in a sample of participants to the universe. The OIG's statistician provided a random sample of 76 participants out of a universe of 727 Participants Served to test for participant performance reporting using a 90 percent confidence level.

Each sample item was tested a) to determine if eligibility determination of participants enrolled complied with WtW regulations, b) to determine if participants still enrolled in the program should have been terminated, c) for adequate supporting documentation per participant file, and d) for proper QFSR line item reporting. Participant file documentation was reviewed and compared to KentuckianaWorks' QFSR for support of participants placed or retained in unsubsidized employment for 6 months. We also reviewed documentation of wages per participant files and compared them to KentuckianaWorks' QFSR for participants retained in unsubsidized employment for 6 months.

Financial Reporting Compliance: We selected financial transactions from KentuckianaWorks accounting records and compared them to cash management procedures used by KentuckianaWorks for accuracy, timeliness and compliance with WtW regulations. KentuckianaWorks' accounting system was reviewed to determine if the data submitted to the Commonwealth of Kentucky for inclusion in the June 30, 2002, QFSR were supported.

We conducted interviews with KentuckianaWorks' officials and analyzed policies and manuals in order to determine procurement compliance with Federal regulations and OMB circulars. We identified 33 WtW competitive contracts in place between October 1, 1998 and June 30, 2002. We reviewed 23 of these contracts and their associated invoices to determine compliance with the applicable WtW regulations and OMB circulars. The expenditures for the remaining 10 contracts were determined by analyzing grant expense schedules prepared by KentuckianaWorks. Of these 10 contracts, only 5 had expenditures which totaled $109,927. Exhibit B lists the 28 contracts that had expenditures totaling $3,370,510.

We used an internal control survey to identify persons responsible for accounting functions and to review KentuckianaWorks' management of internal controls over administrative and accounting functions.

We relied on computer generated data when performing our audit tests, and in accordance with audit guidelines, we tested the validity and reliability of the data.

Criteria

Prior to January 11, 2001, the Interim Rule at 20 CFR 645 (WtW Grants) was used as a reference for state and local projects. Effective January 11, 2001, the Interim *Final* Rule was issued. Federal regulations at 29 CFR 97 (Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments) outline procurement standards for government entities. The Standards for Financial Management Systems as defined in Federal regulations at 29 CFR 97.20 require grantees and subgrantees to have adequate financial management systems which include internal and management controls that ensure grant expenditures are allowable and authorized. OMB Circular A 87 (Cost Principles for State, Local and Indian Tribal Governments) requires that expenses are reasonable and allowable.

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Appendix C

ACRONYMS AND ABBREVIATIONS

CFR	-	Code of Federal Regulations
CRI	-	Career Resources, Inc.
DOL	-	U.S. Department of Labor
ETA	-	Employment and Training Administration
OMB	-	Office of Management and Budget
QFSR	-	Quarterly Financial Status Report
Q&A	-	Questions and Answers
TANF	-	Temporary Assistance for Needy Families
TARC	-	Transit Authority of River City
TEGL		Training and Employment Guidance Letter
WIA	-	Workforce Investment Act
WtW	-	Welfare-to-Work

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Appendix D

AUDITEE RESPONSE TO DRAFT REPORT

KENTUCKIANA WORKS
Greater Louisville's
Workforce Investment Board

410 West Chestnut Street
Suite 200
Louisville, KY 40202

502.574.2500 Tel
502.574.4288 Fax
www.kentuckianaworks.org

March 8, 2007

Mr. Michael K. Yarbrough
Regional Inspector General for Audit
U.S. Department of Labor
Office of Inspector General
Atlanta Regional Audit Office
61 Forsyth Street, SW
Atlanta, GA 30303

Dear Mr. Yarbrough:

By this letter I wish to offer formal comments to the draft report of the performance audit of KentuckianaWorks' Welfare to Work Grants for PY 1998. I received the draft report (OIG Report Number 04-07-001-03-386) on February 27, 2007.

Unfortunately, the February 26, 2007 draft report repeats almost all of the errors that were included in the December 12, 2006 discussion draft report. This draft – like the earlier one – fails all three tests set out in your cover letter to me of December 12, 2006. 1) The draft report is not factually accurate – in fact, it is replete with inaccuracies that I have pointed out, orally and in writing, on multiple occasions. 2) The draft report is incomplete – it repeatedly leaves out key facts that make clear that KentuckianaWorks and its contractors managed this grant professionally and in full partnership with our federal funders at the Department of Labor's Employment and Training Administration. 3) The draft report is unrealistic – the recommendations to "recover" over $3 million from local government and non-profit partners who managed the grant to the best of their abilities under the direct supervision of the DOL/ETA is neither appropriate nor feasible.

I am attaching a point-by-point set of comments that I would ask be considered as part of our official reply to this draft report. If you require any further information, please feel free to contact me at 502-574-3069.

Sincerely,

Michael B. Gritton
Executive Director

LOUISVILLE · JEFFERSON COUNTY METRO

Jerry E. Abramson
Mayor

Louisville Metro Council

KENTUCKIANA WORKS

Official Response from KentuckianaWorks to OIG Draft Report
OIG Report Number 04-07-001-03-386

Finding 1 – KentuckianaWorks did not comply with regulatory requirements to conduct full and open competition.

This finding is false and purposefully misleading. It leaves out crucial information – information we pointed out in our response to the draft statement of facts dated August 29, 2003 and again in our response to the draft discussion report dated January 17, 2007.

Fact 12 in the Office of Inspector General (OIG) Statement of Facts dated August 4, 2003 and the KentuckianaWorks Response to Fact 12 in our Response to the Statement of Facts dated August 29, 2003 cover this issue completely. We stated in our response:

> There was no need for competitive procurement as stated by the "Frequently Asked Questions" DOL/ETA website Question and Answer CG17 dated 9/03/98. Refer to Attachment D.
>
> Attachment D contains a printed copy of Question and Answer CG17 dated 9/03/98. It states:
>
>> CG 17. If in preparing its grant application a competitive grantee gets commitments from various partners to provide certain of the grant activities/services and then actually names those partners (subrecipients) as the entity which will provide the service/activity in its grant application, is it then necessary for the grantee to go through a competitive procurement process to select the provider? (9/03/98)
>>
>> A. NO! ETA's approval and funding of the grant application has the effect of approving the grantees (sic) selection of the named partner/subrecipient to provide the specified service/activity.

As shown in Attachment D, this guidance from ETA came after KentuckianaWorks and numerous others across the country sought clarification on this basic question. Attachment D provides documentation that KentuckianaWorks staff received oral guidance from DOL/ETA staff along the lines of the written guidance quoted above in the summer of 1998. To make sure this guidance was accurate and would be something KentuckianaWorks could rely upon if our actions were ever questioned (as they now are), KentuckianaWorks wrote DOL/ETA and asked it to put in writing the oral guidance that had been offered earlier in the summer of 1998. That letter stated, in relevant part:

> While in Baltimore for the Welfare-to-Work Competitive Grant Orientation, Mr. Willie Harris stated in a question/answer period that if partners had been written into our competitive grants, we did not need to procure the activity to be provided by the partners, only that activity that was planned but not yet assigned to a provider. At this time, I am requesting a written confirmation of the verbal information provided by Mr. Harris. We are quite anxious to get started with the competitive grant activities in Louisville and Jefferson County, but really need this answer before we can begin.

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Rather than writing KentuckianaWorks back directly, DOL/ETA chose instead to publish on its website the guidance quoted above – a copy of which has been attached in each of our responses to these inquiries. KentuckianaWorks acted in good faith in relying on this unequivocal, written guidance from DOL/ETA – and it is amazing that almost 9 years later, your office would argue that we should not have done so.

The February 26, 2007 draft report – like the earlier discussion draft report dated December 12, 2006 -- fails to mention this guidance or to quote from it – thus leaving out crucial facts that are relevant and significant. It fails to note that we wrote ETA asking for express written guidance on this exact question – again leaving out crucial facts that are relevant and significant, because leaving it out suggests that we willfully ignored federal regulations, when the truth is we sought written clarification from ETA and proceeded only after we received that clarification on their website and printed a copy to retain for our records.

The February 26, 2007 draft report instead cites guidance from ETA – guidance that was undated in the December 12, 2006 draft discussion report but which is now claimed to have been "Revised 1/29/99" – months after KentuckianaWorks and other grant recipients received the written guidance quoted above and relied on it to begin delivering services to Welfare-to-Work customers. By leaving out any mention of our earlier correspondence with DOL/ETA and the written, unequivocal response to our correspondence that was posted on the DOL/ETA website (a copy of which has been made available to you on numerous occasions), the draft report makes it appear that KentuckianaWorks ignored clear written guidance from DOL/ETA when in fact just the opposite is true. This is untrue and misleading.

The February 26, 2007 draft report also cites a TEGL (No. 15-01) issued on March 22, 2002 – almost four years after the Welfare-to-Work grants were issued – as if it should have governed our behavior in the fall of 1998. Again, this is misleading – giving the false impression that KentuckianaWorks willfully ignored direct written guidance from DOL/ETA. Nothing could be further from the truth. In fact, we followed the written guidance of DOL/ETA, as noted above.

Finally, even your own Office of Inspector General paid us a visit in October, 1998 and wrote us a letter from Robert R. Wallace, Regional Inspector General for Audit dated December 4, 1998 (I have attached the letter for your review). That letter raised no questions about our service delivery plans. Instead, it expressed concern "that your WtW competitive grant program was in danger of falling behind the implementation schedule included in your approved grant award. However, your assurance of full compliance with the plan by the end of the second quarter eased our concern regarding this matter." If the black letter regulations required us to bid out the work before we proceeded, as the draft report contends, isn't it odd that your own office failed to point this out as a concern after a ten day visit from October 19-29, 1998?

The letter from your office concluded thusly:

> Based on our examination, and except for the issues discussed above, we believe that the Louisville and Jefferson County PIC has a potentially low risk of failure or poor performance under the WtW competitive grant. Your emphasis on work retention through creative solutions to participant child care and transportation problems meets the

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> objectives and intent of the WtW legislation. We believe you have adequate plans, internal control structure, financial and programmatic systems, and the capacity to administer the grant properly in accordance with legal and regulatory requirements.

There is nothing funny about federal auditors coming in asking for more than $3 million to be returned more than 3 years after a grant close-out and almost 9 years after the grant award. But it is certainly comical that your office is now arguing – 8 years after first reviewing our plans and blessing them – that some of the same fundamental decisions made then that received your blessing at that time stand now are now so much in error and violation of DOL regulations that they require us to give back over $3 million.

Finding 2 – KentuckianaWorks did not ensure costs claimed by four of its grant partners were necessary and reasonable.

As stated clearly on Page 2 of our August 29, 2003 response to the Statement of Facts, programmatic/financial monitoring was conducted repeatedly by both federal and state monitors with respect to both the WtW Formula Grant and the WtW Competitive Grant. The state visited five times between April 1999 and April 2003 with respect to the WtW Formula Grant. There were **no findings** at any of the last four visits. On the first, in April 1999, **corrective action was taken and the findings resolved.**

The Department of Labor/Employment and Training Administration conducted three monitoring visits with respect to the WtW Competitive Grant between September 1999 and June 2002. At the first, **there were no findings and corrective action was taken on the areas of concern expressed.** After both the April 2001 and June 2002 reports, **corrective action was taken and the findings resolved.**

In addition, quarterly narrative progress reports and quarterly financial status reports were submitted to the regional GOTRs for the Competitive Grant according to instructions provided by DOL/ETA. KentuckianaWorks was never contacted regarding issues outlined in the quarterly narrative progress reports under sections entitled "Technical Assistance Needed," "Challenges Encountered," or "Outstanding Issues/Challenging Opportunities," with one exception that occurred after grant expiration of June 30, 2003.

One additional comment that is important to keep in mind with respect to each of the four charges that are made in Section 2. The WtW grant was never structured as a performance-based contract whereby we set numerical targets and then were required to meet them or we would have to give back the funding we had received. Nor were they structured in such a way that we had to hit all of those numerical targets in order to continue receiving federal funding.

Instead, we were repeatedly urged by DOL/ETA – in their monitoring visits and in communications from Washington – to set aggressive goals for things like the number of people we would serve, the number that would be reached by Adult Ed, etc. On each of these contracts, we and our contractors made our best efforts to set aggressive goals and then did all we could to

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meet those aggressive goals. The DOL/ETA was an active partner in this goal-setting and performance review and repeatedly approved our plans and sanctioned our efforts.

Finding 2a – Reimbursement of $1,375,940 to Career Resources, Inc. (CRI) to provide case management services to custodial parents was unreasonable and the services provided were inadequate.

The OIG's fundamental contention in the February 26, 2007 draft report with respect to Career Resources, Inc. (CRI) appears to be that, because CRI ultimately ended up serving a smaller number of WtW customers than originally envisioned, all of the money awarded to it ought to be returned.

It should come as no surprise to you that our WtW effort ultimately served far fewer people than originally envisioned. The National Evaluation of the Welfare-to-Work Grants Program: Final Report, dated September, 2004 and prepared by Mathematica Policy Research, Inc. cited (on page xix of the Executive Summary) "six lessons regarding the design and implementation of employment programs for TANF recipients and individuals with significant labor market liabilities." Lesson #1 was:

> **Effective inter-agency partnerships are important.** The WtW legislation required local programs to be implemented within a framework of partnership with local TANF agencies. However, effective partnerships were often slow to develop. In combination with falling welfare caseloads, this often resulted in low numbers of referrals of welfare recipients by TANF agencies to WtW programs, thereby exacerbating the difficulties that many local WtW programs experienced in achieving their enrollment targets (underlining added). In sites where effective partnerships ultimately did develop, they resulted in improved access for welfare recipients to the workforce development system.

Lesson #4 from that same report reads as follows:

> **Stringent eligibility criteria and fiscal requirements can result in low program enrollment.** WtW grantees had to spend at least 70 percent of their grant funds on services for enrollees who met detailed, restrictive eligibility requirements. This requirement contributed to the widespread problems that grantees experienced in achieving enrollment targets during the early years of the WtW program. (underlining added).

Lesson #5 from that same report reads as follows:

> **Correcting the rules governing a temporary program may be ineffective.** The 1999 amendments to the BBA loosened the criteria that defined the enrollees on whom at least 70 percent of grant funds had to be spent. They also expanded the list of allowable pre-employment program activities to include more use of vocational education and job training. However, these changes had limited effect, because the final rules reflecting the amendments were published late in the life of the program (underlining added), and

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> grantees were reluctant to revise existing procedures and referral agreements with local TANF agencies.

Like many of our colleagues across the country, we were ultimately not able to serve the number of WtW customers that we originally targeted. This was no surprise to DOL/ETA. In fact, it was a subject of conversation during each of the last two monitoring visits from DOL/ETA. However, at the end of each of those visits, **corrective action was taken and the findings resolved.** To the extent that our contracts with CRI ultimately reduced the number of clients to be served by them, DOL/ETA was completely in the loop about those decisions – and ultimately signed off on them by continuing to approve our yearly submissions for funding and by not raising them in their monitoring visits. For you to raise them now – 3 ½ years after the grant has been closed out – is deeply objectionable.

Enrolling participants proved to be more of a challenge than had been expected for several reasons here at the local level. First of all, TANF recipients had other services available to them through the TANF agency. These services included work bonuses for retaining employment as well as Employment Retention Assistance that provided emergency funding for needs that arose that could have led to loss of employment. TANF recipients tended to exhaust these benefits prior to engaging in WtW. Secondly, many persons certified for WtW services chose not to engage with an additional agency when they were so newly removed from the TANF rolls and may still have been working with their TANF case manager. Thirdly, there were numerous difficulties in reaching those who may have been eligible due to changes in address, changes in or lack of a phone number, work schedule, family barriers such as domestic violence, etc. Considerable energy was spent on reaching participants both prior to and after enrollment. Finally, WtW was a service available to eligible persons, but was not mandated for any of the TANF population.

The February 26, 2007 draft report is factually inaccurate and incomplete in leaving out the dialogue that KentuckianaWorks had with DOL/ETA regarding these enrollment numbers. To continue to measure CRI's effectiveness against the total number of people targeted for service in the first contract (3,270) without mentioning our acknowledged difficulties in meeting these aggressive enrollment numbers, our contract modifications to adjust those numbers to more realistic ones, and the DOL/ETA's approval of those modifications leaves out facts that are relevant and significant to any fair consideration of this matter.

The last three paragraphs of this section appear to repeat the argument first offered in Finding 1 of the August 3, 2003 OIG Statement of Facts – that WtW clients did not receive services from the WtW program. This time, it is phrased as "we conclude that services received from CRI only indirectly related to post-employment services. Based on a review of the custodial parent case files, case managers did not enroll participants in post-employment activities…."

As we stated in our response to Fact 1 on August 29, 2003:

> 20 CFR 645.220 cites *examples* for allowable post-employment services with the following statement: "Post-employment services include such services as:
> 1. Basic education skills training;

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2. Occupational skills training;
3. English as a second language training; and
4. Mentoring.

Our local WtW program did not read this as "Post employment services must be one of the following…." Additional post-employment services other than those stated in 20 CFR Part 645.220 were provided through contracts with KentuckianaWorks to best meet the local needs of eligible participants.

Stated in all Competitive Grant Quarterly Narrative Progress Reports and local plans approved for the Formula Grant, KentuckianaWorks WtW post-employment services included intensive case management services. Furthermore, post-employment "intensive case management services" was approved by DOL/ETA as a service in the May 2001 request (and June 2001 award) for a no-cost 2-year extension to the WtW Competitive Grant. Neither DOL/ETA GOTRs nor state monitors provided technical assistance to inform the grantee that this service was unallowable as an identified post-employment service.

Finding 2b – WtW funds in the amount of $397,687 were not expended effectively by the Jefferson County Public Schools Department of Education.

The core contention cited by the February 26, 2007 discussion draft is that Jefferson County Public Schools Adult Education (JCPS Adult Ed) was paid $397,687 to provide adult education training to Welfare-to-Work participants "similar to training offered free to citizens of Jefferson County." This is factually inaccurate. W-t-W clients were provided a customized, individualized, intense set of educational learning opportunities with one-on-one instruction delivered either at their home or at their worksite. Nothing like this was available through the normal Adult Ed classes taught by JCPS.

JCPS Adult Ed provides Adult Education classes that are open to the public. These classes typically meet twice a week for a total of 4-5 hours. Class size varies from 12-30. As noted in Attachment H of our August 29, 2003 response to the OIG statement of facts, "standard materials/software provided through the community-based GED instruction program classroom were for classroom use only and could not be taken home by students."

The Adult Education component of our Welfare-to-Work grant focused on serving welfare recipients with the least skills, education and employment experience. It was designed to deliver instruction in a fundamentally different way from the normal Adult Ed classes in order to address three key barriers for the target population:

- It was delivered in the home and at the workplace – thus eliminating the time barrier for many participants who were working in part-time jobs or in jobs with varying shifts which made their attendance in formalized/scheduled classes very difficult.
- Delivering it in the home and at the workplace also eliminated the child care barrier. Nearly all licensed child care facilities close by 6:00 p.m., making it very difficult for

customers to attend the evening sessions of normal Adult Ed classes that typically start at 5:30 p.m.

- This delivery model also eliminated the transportation barrier that particularly affected participants who did not live on a bus line and for those in outlying counties where public transportation was not available or was very limited. Transportation was also a barrier for women at night who lived in high crime areas.

The services provided to W-t-W customers were fundamentally different from those provided the normal Adult Ed student. As Attachment H made clear, specialized software was purchased that "was designed specifically for customizing instruction for the welfare-to-work participants in order to upgrade basic academic skills, such as reading, mathematics, and writing, in preparation for the GED test. This software was loaded onto computers so it could be used for both in-home and workplace instruction purposes for welfare-to-work participants." Nothing like this was available to participants in the normal Adult Ed classes.

As Attachment H notes, "The software purchased also allowed instructors to individualize instruction to meet the needs of the welfare-to-work participants in specific occupational areas." This kind of contextualized learning, focused on specific occupational areas, was not available in normal Adult Ed classes.

The Adult Ed component of our W-t-W effort provided a whole range of services that were not available to ordinary Adult Ed students. These included:

- Home visits by instructors that were arranged to meet the participants' schedules.
- Development of a Career Plan with documented employment and career goals based on results from the System for Assessment & Group Evaluation (or S.A.G.E.) test.
- Individualized instruction tailored to the work and Career Plan of the individual. This individualized, contextualized instruction encompassed not only computerized instruction, but also additional assignment and tutoring that JCPS customized to the participants' individual Career Plans.
- Assessment of attitude, motivation, learning styles, job retention strategies, knowledge, computer skills and adaptability to ensure that the offered services meet the needs of individual participants.
- Use of the WtW participants' worksites as a location for providing customized, individualized services contextualized to the worksite. This kind of instruction at the worksite is not provided as part of the normal Adult Ed classes. It is provided only when a fee is charged (usually to the employer).
- Refurbished computers equipped with licensed educational programs customized to the participants' individual needs were installed in participants' homes, allowing computer aided instruction anytime.
- Ongoing in-home technical support for computers and assistance in completing assignments.
- Computers and computer skills training sessions provided computer skills to enable participants to benefit from computer assisted basic skills software and become more employable in the 21st Century jobs.

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- Marketing of services outlined in the KentuckianaWorks grant to 200 employers, including information regarding tax credits associated with worksite training.

None of these services were available through the normal Adult Ed classes. To imply that they were is untrue and misleading.

With respect to staffing, the February 26, 2007 draft report states on page 9 that:

> Based on our review of the contract, 79 percent of the charges were for agency personnel. Three of the four staff members assigned to the initial contract were already employed by Jefferson County Public Schools Department of Adult Education.

By this statement, the February 26, 2007 draft report appears to imply two things: 1) that we shouldn't have spent 79% of these funds on personnel; and 2) that JCPS Adult Ed somehow did something wrong by assigning personnel already employed by them to work on the WtW project. Both of these contentions are factually incorrect.

First, the Adult Ed component of the WtW grant focused on eliminating barriers to welfare participants improving their basic skills and attaining their GED. The strategy – reviewed and approved multiple times by DOL/ETA monitors – was to provide home-based and work-based instruction. Because this was a labor intensive approach – often requiring one-on-one interactions between instructors and WtW participants, it is neither surprising nor objectionable that 79% of the grant funds went to personnel costs on this contract. That is exactly what we were paying for – the time of instructors who could work with individual clients to help them succeed.

Secondly, there is nothing objectionable about the fact that JCPS Adult Ed turned to experienced staff members to implement this effort. The Adult and Continuing Education Unit is a self supporting entity within the Jefferson County Board of Education District. Adult and Continuing Education personnel costs are covered by funding from the programs in which they are scheduled to work. The Unit hires highly qualified full-time employees. The innovative model that was designed for WtW participants required intensive, individualized and ongoing training and support by staff members of the Jefferson County Board of Education. Due to the need to start services quickly in order to meet aggressive service goals and outcomes, qualified fulltime, experienced personnel were reassigned to these grants.

The February 26, 2007 draft report concludes by stating that, "Based on the limited training results reported in relation to the cost incurred, and because similar free services were available to the citizens of Jefferson County through the Jefferson County Public Schools Department of Adult Education, we conclude that WtW grant expenditures were not necessary or reasonable." The report provides no explanation at all – nor any foundation for – the claim that the contract produced "limited training results."

The report cites the fact that 61 participants were enrolled in customized training and that 49 completed it. This is a success rate of 79% -- hardly the kind of performance that could be called "limited." Similarly, the report notes that "only 15 of the 61 participants enrolled used their

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computers at work," but because so many participants had low literacy and overall educational levels, this was not a surprise. The computer training was provided to participants not just so it could help them in their current job, but so it could help them prepare themselves to get the next one as well.

These are the only two "performance issues" raised. Neither states any case at all that would justify the contention that grant funds should be returned because of poor performance.

In the study titled Understanding Cost of the DOL Welfare to Work Grants Program, the costs per placement ranged from $3,251 to $13,778. We are not sure how the cost per completion was calculated; however, it appears the combined cost of the three JCPS contracts was used but only the number of participants served in one contract was used in determining completions. According to our calculation, the cost per completion is $5,099. ($397,687 divided by 78 participants completing training.) The cost per participant was within a reasonable range.

Finding 2c – KentuckianaWorks did not conduct an appropriate analysis of the benefits to WtW participants prior to awarding contracts to the Transit Authority of River City (TARC).

The core contention in Finding 2c of the February 26, 2007 draft report appears in the first paragraph: "The contract files did not support whether KentuckianaWorks conducted an evaluation to determine if the services were needed, projected how many participants would utilize the bus service, or considered other transportation options."

As we stated in our August 29, 2003 response to Fact 21:

> Alternatives to transportation for WtW participants were explored. As an example, KentuckianaWorks explored the possibility of obtaining donated automobiles to include in program implementation for eligible participants, however, technical assistance from DOL instructed this was not permissible.

It should be obvious to anyone that transportation issues were a serious barrier to WtW participants – in Louisville and across the country. In fact, the grant application to DOL stated on page 11 that:

> According to a survey of nonprofit employment specialists who work with welfare recipients, transportation was cited as the single greatest challenge in matching clients with jobs. Particularly problematic is transportation in the evenings and at night. Bus service is greatly reduced at night in many of the areas and there is no light rail or subway system. This is critical for the TANF population because many of the lower skilled jobs are in industries with night shifts and high demand for low-skilled labor. In addition, most of these industries are located closer to the edge of the county while most of the TANF population is concentrated in the South Central and West End of the city. Conversely, these areas are particularly lacking in employment opportunities, even to the extent of having few local retail stores, groceries, dry cleaners, and so on.

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Thus, it is clear from the plain language of our application for the WtW grant that KentuckianaWorks conducted an evaluation to determine if the services were needed and considered other transportation options. To continue to refer to the "contract files" not supporting whether KentuckianaWorks conducted an evaluation to determine if the transportation services were needed – when evidence of that fact is clear and incontrovertible in the grant application itself – is misleading and erroneous.

To contend that KentuckianaWorks should have "projected how many participants would utilize the bus service" is also in error. We would have had no way of projecting in advance how many participants would utilize the night time bus service. Instead, we chose to utilize the WtW grant funds to provide the opportunity to all of the WtW customers who would be served by the grant – a fact that we made plain and clear in our grant application, which said:

> In a unique adaptation of a program started by Transit Authority of River City (TARC) and others, Competitive funds will be used to expand the Night Owl service. Night Owl fills a gap in evening and night public transportation. Currently, the Jefferson County Enterprise Community is being served under a pilot project with the River City Transit Authority (TARC) with enhanced nighttime public transit. Through WtW Competitive funds we will leverage an already successful program and expand the services throughout the County.
>
> The goal is to provide bus service during the night hours to enable recipients to accept, and keep, jobs at later hours. Night Owl, which runs between 11 p.m. and 5 a.m., will be expanded to allow people from all areas of the county to receive bus service at these hours.

The February 26, 2007 draft report in paragraph 3 on page 10 repeats the introduction of new facts that were not previously presented in the August 3, 2003 Statement of Fact. Instead, these facts first appeared 3 ½ years later in the December 12, 2006 draft discussion report. The February 26, 2007 draft report states:

> According to KentuckianaWorks, from July 1, 1998 through June 30, 2003, 930 personalized applications were received. Of the 930 personalized applications, only 39, or 4.2 percent, were submitted by WtW participants.

We object to the introduction of new facts that were not mentioned in the original August 3, 2003 Statement of Facts.

Before July 1, 2002 we had developed no mechanism for tracking the individual usage of the Nia Night Owl service by WtW clients. Thus, the records from TARC that have been provided to you show what was being tracked at the time: the total number of rides provided by the service each month and the total number of new people who were taking advantage of the service.

Beginning July 1, 2002, KentuckianaWorks began providing officials at TARC with a list of WtW participants. TARC officials compared that list against the list of people who had registered to ride on the Nia Night Owl service. They then provided KentuckianaWorks with a

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monthly count of the number of WtW participants who had applications on file to use the service. These reports demonstrate that, in the last year of a five year grant that was winding down, 39 WtW clients utilized the Nia Night Owl service to get to work.

Finding 2d – KentuckianaWorks paid an excessive amount to Seven Counties Services for services that were not adequately measured and were provided free to citizens of the area.

The core contention of the February 26, 2007 draft report is that KentuckianaWorks paid Seven Counties Services for something that Seven Counties already provided free to citizens of the area. The report concludes that, "WtW funds were used to pay salaries for employees already employed by Seven Counties Services, as well as other expenses associated with operating the crisis hotline, which already existed and provided services free of charge to the citizens of the respective counties." This is factually inaccurate.

Seven Counties' Crisis and Information Center (SCS/CIC) offered around the clock mental health outreach and response to Welfare-to-Work participants, their employers, and collaborating agencies on a line designated specifically for Welfare-to-Work participants and employers. Welfare-to-Work clients received numerous services that were not available to the public, including:

- For the first two years of the contract, two psychiatric social workers were assigned solely to work face-to-face with Welfare-to-Work participants and their employers. They trained and consulted with crisis line staff, other Welfare-to-Work contractors, and employers to identify and treat participants with substance abuse and mental health needs. These two psychiatric social workers worked with participants on issues prompting resource bank requests to resolve the current problem and to develop crisis plans. They attempted to develop resources (for example, sick child care) when it became apparent that none existed.
- For the life of the grant, 24/7 access to the Resource Bank operated by Jefferson County Human Services for same-day access to funds to maintain employment. All bank requests came through the crisis line for the life of the grant, and during the first two years of the grant these requests were reviewed and approved first by the Welfare-to-Work social workers employed by SCS/CIC.
- For the life of the grant, 24/7 access to emergency resources available only to Welfare-to-Work participants and employers (i.e., child care, legal assistance, transportation).

In the period prior to January 2001, the Seven Counties contract paid for the portion of Seven Counties' staff time required to develop the 24/7 line that was set up only for WtW clients. It paid for the services of the two psychiatric social workers who were dedicated 100% of the time to working with and on behalf of WtW clients. It paid to provide the special training required to staff a specialized line and to follow the unique procedures and documentation associated with it. Up until June 30, 2000, the contract also provided for a $10 per call fee to be provided to Seven Counties for each call received through the special WtW line. Thus, KentuckianaWorks paid for the development of a special product for WtW customers, two staff people who served no one but WtW customers, the training of Seven Counties staff to be able to meet the needs of the customers calling in on the special line, and a per call fee for usage. This in no way can be fairly characterized as paying for something that was otherwise available for free.

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Beginning July 1, 2000, KentuckianaWorks agreed to provide a flat amount to offset a portion of the overall cost of running the crisis line, because the same crisis intervention counselors who answered calls from the general public also answered the calls from the special number for WtW customers. In this sense, KW paid for a portion of the overall capacity of the crisis line because a portion of that overall capacity was being dedicated to the needs of the WtW clients. Funding also supported the special training requirements that crisis intervention counselors needed in order to meet the needs of WtW clients when they called the special number set aside for them.

The February 26, 2007 draft report also contends that KentuckianaWorks "paid an excessive amount" for the services that were offered to WtW clients. This argument is made primarily by highlighting the gap between the aggressive goals that were set for the number of calls that would be received and the actual number of calls that were received.

As stated in our response to Section 2a above, national reviews of the WtW grant have made abundantly clear that KentuckianaWorks was not alone in setting aggressively high targets for the number of customers to be served, only to have rigid eligibility criteria and other barriers lead to a much smaller number of customers ultimately enrolled. This same dynamic – setting aggressive goals for usage, only to have to readjust them downward as our on-the-ground efforts made clear how difficult it would turn out to be to enroll WtW participants in the program – clearly affected the call volume received by Seven Counties.

Here again, it is important to point out that repeated monitoring visits from the DOL/ETA reviewed the call volume and other performance indicators of this contract and did not present any findings to KentuckianaWorks. Instead, DOL/ETA monitors continued to urge us to set aggressive goals for enrollment – and therefore also for the kinds of crisis intervention services that Seven Counties was prepared to provide. Nothing in any of those monitoring visits suggested that we should abandon the infrastructure built at Seven Counties to provide these services.

Section 2. Did KentuckianaWorks comply with participant reporting requirements by submitting accurate and reliable performance reports?

Performance data were inaccurately reported. This section repeats the error that we have already discussed above on pages 6 and 7, claiming wrongly that intensive case management services were not an allowable post-employment service.

As we stated in our response to Fact 1 on August 29, 2003:

> 20 CFR 645.220 cites *examples* for allowable post-employment services with the following statement: "Post-employment services include such services as:
> 5. Basic education skills training;
> 6. Occupational skills training;
> 7. English as a second language training; and
> 8. Mentoring.

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Our local WtW program did not read this as "Post employment services must be one of the following…." Additional post-employment services other than those stated in 20 CFR Part 645.220 were provided through contracts with KentuckianaWorks to best meet the local needs of eligible participants.

Stated in all Competitive Grant Quarterly Narrative Progress Reports and local plans approved for the Formula Grant, KentuckianaWorks WtW post-employment services included intensive case management services. Furthermore, post-employment "intensive case management services" was approved by DOL/ETA as a service in the May 2001 request (and June 2001 award) for a no-cost 2-year extension to the WtW Competitive Grant. Neither DOL/ETA GOTRs nor state monitors provided technical assistance to inform the grantee that this service was unallowable as an identified post-employment service.

Retention data were inaccurately reported or missing from files. Retention data were gathered, tracked and reported in relation to availability of definitions and clarity from the U.S. Department of Labor. Availability and consistency of guidelines and technical assistance from the U.S. Department of Labor were overwhelmingly lacking. When definitions, clarity and consistency of definitions were not available, KentuckianaWorks had no choice but to record, track and report data to the best of their abilities. The receipt of technical assistance well into the years of the grant did not allow for consistency and accuracy of reporting over the entire grant period. At one point near the end of the grant, a nationally automated reporting system for WtW was in development, but it not-so-surprisingly got scrapped due to the complexity and inconsistency of definitions for reporting elements and, subsequently, the inability to report accurately.

Wage gains were inaccurately reported. Wage gains were gathered, tracked and reported in relation to availability of definitions and clarity from the U.S. Department of Labor. Availability and consistency of guidelines and technical assistance from the U.S. Department of Labor were overwhelmingly lacking. When definitions, clarity and consistency of definitions were not available, KentuckianaWorks had no choice but to record, track and report data to the best of their abilities. The receipt of technical assistance well into the years of the grant did not allow for consistency and accuracy of reporting over the entire grant period. At one point near the end of the grant, a nationally automated reporting system for WtW was in development, but it not-so-surprisingly got scrapped due to the complexity and inconsistency of definitions for reporting elements and, subsequently, the inability to report accurately.

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