

**U.S. Department of Labor
Office of Inspector General
Second Round WtW Competitive Grants Postaward Survey Results**

**Second Round Welfare-to-Work Survey Identified
Areas Needing Additional Policy and Technical
Assistance to Achieve WtW Legislative Intent
and Improve Program Administration**

Report Number: 05-99-020-03-386

Report Date:

SEP 20 1999

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ACRONYMS/ABBREVIATIONS

| | |
|--------|--|
| AFDC | Aid to Families with Dependent Children |
| CAP | Cost Allocation Plan |
| CFR | Code of Federal Regulations |
| DHHS | Department of Health and Human Services |
| DOL | Department of Labor |
| ETA | Employment and Training Administration |
| FLSA | Fair Labor Standards Act |
| GOTR | Grant Officer Technical Representative |
| JTPA | Job Training Partnership Act |
| MIS | Management Information System |
| OCD | Office of Cost Determination |
| OMB | Office of Management and Budget |
| PIC | Private Industry Counsel |
| PRWORA | Personal Responsibility and Work Opportunity Reconciliation Act |
| QFSR | WtW Competitive Grant Cumulative Quarterly Financial Status Report |
| RFP | Request for Proposals |
| TANF | Temporary Assistance for Needy Families |
| WtW | Welfare-to-Work |

EXECUTIVE SUMMARY

Background, Scope and Objectives

The Balanced Budget Act of 1997 authorized the Secretary of Labor to provide Welfare-to-Work (WtW) grants to states and local communities to move hard-to-employ welfare recipients into unsubsidized jobs and economic self-sufficiency. Competitive grants are designed to encourage communities to develop innovative, results-oriented ways to help long-term welfare recipients gain a secure foothold in the labor market. After awarding \$199 million to 51 first round grant recipients in May 1998, the Employment and Training Administration (ETA) in November 1998, awarded an additional \$273 million to 75 second round grantees in 44 states. The Office of Inspector General issued report number 05-99-008-03-386 on March 24, 1999, on selected first round grantees.

Results

This report summarizes the results of our postaward survey of 12 second round competitive grantees. Overall, we found that the grantees possessed the capability to adequately deliver their WtW competitive grant programs, except for the findings noted in this report. It is not surprising to us that the vulnerabilities described in Finding 1 for the 12 second round grantees mirror the financial management and policies and procedures findings of the 35 grantees surveyed during the first round of competitive grants. In both cases, our postaward visits to mainly non-traditional Department of Labor (DOL) grantees were made shortly after their grant awards and before substantive actions were initiated by them to establish an infrastructure for grant operations. For instance, in the first round surveys, we reported that only 17 of the 35 grantees (49 percent) were operational at the time of our review. Likewise, our survey of second round grantees found only 5 of the 12 grantees (42 percent) were operational.

In both rounds, our work alerted the grantees and ETA to the risks associated with impaired operational systems. Finding 1 is depicted in Appendix 1, which compares the findings of the second round survey with identical findings from the first round. The chart below shows the critical issues in findings 2 through 4 (see Appendix 2 for further details), the number of grantees, and the percentage of the 12 second round grantees related to each finding.

| Financial Management | | | | Policies and Procedures | | Programmatic Compliance | | |
|---|--|--|---|--|---|--|--|---|
| Finding 2 | | | | Finding 3 | | Finding 4 | | |
| Cost Allocation Plans for Multi-funded Grantees | Cash Management Issues & Other Fiscal Integrity Concerns | Inadequate Time and Attendance Systems | Reporting Program Costs without a Basis | Lack of Formal Agreements with Subrecipients and Service Providers | Lack of Written Oversight and Monitoring Procedures | Grants Include Evaluation Studies Which May Not Be An Allowable Activity | Other Grant Provisions Need to Be Modified | Start-up Activities to Provide Child Care and Transportation Services Are Not Fully Developed |
| 8 | 7 | 5 | 7 | 4 | 3 | 3 | 7 | 2 |
| 67% | 58% | 42% | 58% | 33% | 25% | 25% | 58% | 17% |

With rare exception, we found that many of the second round competitive grantees displayed the same or similar vulnerabilities identified during our examination of the first round grantees. Thus, we believe ETA should reinforce its efforts to monitor grantee plans and program implementation schedules to ensure the most efficient and effective use of WtW funds, and to secure compliance with program requirements. Third round competitive grantees should benefit from the lessons learned by grantees in rounds one and two.

Summary Recommendations

We recommend that the Assistant Secretary for Employment and Training issue policy guidance, instructions and provide technical assistance to fully address:

- C approval of cost allocation plans to allocate common costs and expenditures to the 70/30 percent cost categories, as well as to reportable program activities;
- C obligation for grantees to follow prescribed cash management requirements;
- C compliance with time and attendance requirements in the Office of Management and Budget (OMB) circulars;
- C redistribution of expenditures reported without a basis for the allocation;
- C development of formal agreements with subrecipients and service providers;
- C written oversight and monitoring procedures to ensure effective and efficient program operations;
- C modification of grants to ensure up-to-date and accurate implementation schedules, budget summaries and other provisions, including the removal of unallowable evaluation studies;
- C monitoring renovation projects for compliance with the prohibition against using Federal funds for construction; and
- C the timely implementation of child care and transportation services to ensure that current WtW grant participants benefit from these costs.

Agency Response and Auditor's Conclusions

The Assistant Secretary for Employment and Training responded to our draft report by stating the Agency was in overall agreement with our audit findings. He also stated the report reinforces anecdotal information received from Grant Officer Technical

Representatives on issues observed with their grantees. In addition, the Assistant Secretary provided updated information on technical assistance efforts that have been undertaken partly in response to the issues identified through our postaward surveys. These efforts include:

- S** issuing policy guidance on new fiscal and eligibility issues;
- S** plans for additional guidance to competitive grantees to reiterate policies that already exist, and follow up contacts to ensure that any needed corrective action is implemented;
- S** follow up efforts to ensure that any inappropriate evaluation components are removed from relevant grant documents; and
- S** plans for Financial Management Training in four locations.

The Assistant Secretary's complete response is contained in Appendix 7, and excerpts relative to each finding are shown following the applicable finding.

We concur with the Agency's ongoing and planned corrective actions to remedy our report findings and comply with our recommendations. However, we will continue to monitor and evaluate these efforts before the findings can be resolved or closed.

BACKGROUND

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA)

was enacted August 22, 1996. The PRWORA, a comprehensive welfare reform bill established the Temporary Assistance for Needy Families (TANF) program to supersede the Aid to Families with Dependent Children (AFDC), the Job Opportunities and Basic Skills Training and the Emergency Assistance programs. The TANF provisions substantially changed the nation's welfare system from one in which cash assistance was provided on an entitlement basis to a system in which the primary focus is moving welfare recipients to work and promoting family responsibility.

On August 5, 1997, the President signed the Balanced Budget Act of 1997. This legislation amended certain provisions of the Social Security Act and authorized the Secretary of Labor to provide WtW grants to states and local communities for transitional employment assistance to move the hard to employ TANF welfare recipients into unsubsidized jobs and economic self-sufficiency. The Balanced Budget Act authorized \$3 billion for WtW grants in fiscal years 1998 and 1999. Approximately 75 percent, or \$2.1 billion, was designated for distribution by formula grants to the states with 85 percent being passed through by the states to Service Delivery Areas established under the Job Training Partnership Act (JTPA) program. Approximately 25 percent, or \$712 million was slated for distribution through a competitive grant process which is designed to encourage communities to develop new, results-oriented ways to help long-term welfare recipients gain a secure foothold in the labor market.

ETA published an Interim Final Rule in the Federal Register on November 18, 1997, implementing the WtW grant provisions of Title IV, Part A of the Social Security Act, as amended by the enactment of the Balanced Budget Act of 1997. The first round of \$199 million (announced on May 27, 1998) was awarded to 51 competitive grant recipients. The second round competitive grants were awarded on November 20, 1998, and totaled \$273 million for 75 projects in 44 states. Approximately \$240 million remains available for additional awards. The second round competitive grants performance periods generally began on January 4, 1999. Total performance periods for the grants range between 18 and 30 months and funding must be expended within the grant period.

We developed a postaward survey guide to assess program implementation for 12 grants awarded during the second round of WtW competition. Our previous review sampled 35 of the 51 first round grantees. We found during the first round survey that some grantees, at the time of our visits, had inadequate financial management controls, inadequate policies and procedures and several programmatic noncompliance issues.¹ As in our first effort,

¹ The results of our previous survey of first round grantees are contained in our audit report number 05-99-008-03-386, issued March 24, 1999.

our overall objective for the current survey was to determine whether the grantees had implemented and/or adequately planned for the financial management, program delivery and internal control systems necessary to account for Federal funds and achieve the purposes of their grants. Using similar procedures as in the first survey, we again issued management letter reports to the individual grantees, with copies to ETA, so that corrective actions could be promptly initiated. The ETA has been attentive and responsive to the issues raised during the course of our audit fieldwork.

PRINCIPAL CRITERIA

The principal criterion for the WtW program is 20 CFR Part 645, WtW Grants Interim Final Rule, published November 18, 1997. Some of the major provisions of this program include the work-first philosophy, how funds must be spent and eligibility under the 70/30 percent provisions. See Appendix 3 for more detailed information on WtW program requirements.

Besides the program requirements identified in 20 CFR Part 645, there are a number of additional administrative and program guidelines. These additional standards vary as to the type of entity receiving the grant. The following table provides an overview of the OMB circulars and DOL regulations that are applicable.

| <i>Nature of Grantee</i> | OMB Circulars | | | Regulations |
|----------------------------------|-----------------------------------|--------------------------------|--|----------------------------|
| | <i>Federal Audit Requirements</i> | <i>Federal Cost Principles</i> | <i>Uniform Administrative Requirements</i> | <i>Department of Labor</i> |
| State/Local Governments | A-133 Revised 6/24/97 | A-87 Amended 8/29/97 | A-102 Amended 8/29/97 | 29 CFR Part 97 |
| Institutions of Higher Education | | A-21 Revised 10/27/98 | A-110 Amended 8/29/97 | 29 CFR Part 95 |
| Private Non-Profit | | A-122 Revised 6/1/98 | A-110 Amended 8/29/97 | 29 CFR Part 95 |

AUDIT OBJECTIVES

Our overall objective was to perform a postaward survey to determine whether the grantees had implemented and/or adequately planned for the financial management, program delivery systems and internal controls necessary to account for and safeguard Federal funds and achieve the purpose of the grant. Additionally, this survey was designed to follow up on the results of the first round survey, and determine whether second round competitive grantees were experiencing similar problems and vulnerabilities identified in the first round grantees.

Our subobjectives were to determine whether:

- C financial management systems and internal controls are adequate to provide reasonable assurance that Federal funds would be adequately safeguarded and that expenditures are reasonable, necessary and allowable under the grant,
- C planned program management and delivery systems are adequate to achieve the purpose of the grant,
- C planned financial and programmatic reporting systems can be relied upon to produce accurate, complete and timely reports that are traceable to source documentation, and
- C systems/controls are in place and/or being developed to ensure compliance with applicable laws, regulations and program requirements.

We believe these postaward surveys provide an early assessment of grantee operations and can be used as a basis to identify problems and avoid future administrative findings and/or questioned costs.

SCOPE AND METHODOLOGY

During July 1998, OIG developed a postaward survey guide for the first round of competitive grants. The guide was designed to assist the auditors in assessing the grantees' financial and performance systems. The survey guide was slightly updated for the second round competitive grant surveys.

We performed onsite surveys of 12 second round WtW competitive grantees selected on a judgmental basis. We reviewed the grant agreements, subrecipient agreements, and other relevant documents which included policies and procedures.² Additionally, we interviewed a number of key staff members as to their roles in implementing the WtW program. We evaluated the grantees' ongoing and/or planned operations to assess their capabilities to implement the WtW program and comply with Federal requirements. Fieldwork for the 12 grantees was conducted by the Chicago, New York and Philadelphia Regional Audit Offices during the period March 1999 through June 1999. (See Appendix 4 for a listing of the grantees reviewed and dates of the fieldwork.)

In total, we surveyed 12 grantees which received \$47,895,994, representing 18 percent of the \$273,287,751 awarded during the second round of competitive grants. During our survey, we determined whether the grantees had adequately planned for or implemented operational internal control structures governing grant assets and financial and programmatic systems. We also evaluated the grantees' capacity to properly administer the WtW competitive grants in accordance with regulatory requirements. Our examinations were performed in accordance with *Government Auditing Standards* issued by the Comptroller General.

² We have included in Appendix 6 some of the areas we suggest be considered for inclusion in the WtW policies and procedures for 9 of the 12 grantees.

FINDINGS AND RECOMMENDATIONS

1. Second Round Grantees Face the Same Vulnerabilities as Previously Reported

We determined during our survey of second round grantees, as with the first round, that grantees have the overall capability, including the necessary financial and management information systems, to effectively administer their WtW competitive grants.

However, as we reported in our previous survey of 35 first round grantees,³ we found that many of the second round grantees lacked adequate internal controls over financial management systems to comply with cost limitations and did not have controls to comply with management information and financial reporting requirements. Additionally, we found that these grantees usually did not have formal agreements with local TANF agencies, had not developed formal eligibility procedures, and lacked written WtW policies and procedures.

The findings matrix in Appendix 1 demonstrates that second round grantees faced similar conditions and experienced frequencies of occurrences as did the first round grantees in the areas of:

1. Inadequate internal controls governing grantee financial and management information systems over:
 - (a) cost limitations,
 - (b) program data, and
 - (c) financial reporting.

2. Inadequate WtW grantee policies and procedures regarding:
 - (a) formal agreements with TANF agencies,
 - (b) formal eligibility procedures, and
 - (c) other written WtW operating plans and practices.

3. Potential violations of the Fair Labor Standards Act (FLSA) and noncompliance with the “work-first” requirement.

In our previous audit report, we recommended that the Assistant Secretary for Employment and Training take actions to ensure that WtW grantees develop the necessary controls over financial and management information systems, financial reporting, and encourage formal agreements and procedures to ensure compliance. We believe our current findings and recommendations reinforce the need to implement the first round recommendations. Therefore, we do not offer any additional recommendations for the same vulnerabilities experienced by the second round grantees and ultimately facing the third round grantees.

³ Audit report number 05-99-008-03-386, issued March 24, 1999.

In addition, our review of the second round grantees found a number of programmatic issues that varied from those identified in our previous survey of the first round grantees. Therefore, the findings in this report will address only the new and slightly different issues, organized according to financial management, policies and procedures, and programmatic compliance findings.

In the area of financial management, we found inadequate internal controls over cost allocation plans for multi-funded grantees, cash management and other fiscal integrity concerns, inadequate time and attendance record keeping, and allocation of program costs without enrollments. We also found that policies and procedures need strengthening by formalizing agreements with subrecipients and developing written monitoring procedures. Finally, we found inadequate internal controls over programmatic compliance issues related to unallowable evaluation studies, grant provisions which need modification to establish viable goals and outcomes, and underdeveloped start-up activities for child care and transportation services.

Agency Response and Auditor's Conclusions

In responding to our draft report, the Assistant Secretary for Employment and Training commented that our report made reference to potential Fair Labor Standards Act (FLSA) violations, but this issue was not discussed in any of the Round two grants that were reviewed. The Assistant Secretary further stated that ETA continues to work with a number of grantees where this issue surfaced, and would like a more specific reference regarding the Round two grantees affected by this issue. (See Appendix 7 for the Agency's complete response.)

FLSA and other issues were addressed in our first round report, with corrective actions planned. Appendix 1 of this report identifies three second round grantees with FLSA and "work-first" issues, as well as other second round grantees with parallel findings from the first round. We decided against repeating such findings since the recommendations are unchanged from our first round report. Complete descriptions of these findings are contained in the individual postaward surveys for each grantee. The three second round grantees with FLSA and "work-first" issues are:

- S** Full Employment Council
- S** Action for Boston Community Development
- S** Alexandria Redevelopment and Housing Authority

2. Inadequate Internal Controls Over Financial and Management Information Systems

In addition to sharing the vulnerabilities we reported for the first round grantees, we found other problems related to financial and management information systems during the second round survey. These include the need to strengthen internal controls over:

- a. cost allocation plans for multi-funded grantees,
- b. cash management and other fiscal integrity concerns,
- c. inadequate time and attendance systems, and
- d. reporting program costs with a basis for allocation.

a. Cost Allocation Plans for Multi-funded Grantees

While all 12 grantees have operations which are funded by several sources, 8 grantees (67 percent) either did not have an approved Cost Allocation Plan (CAP) or had plans that needed to be modified to allocate indirect costs to those funding sources which received common benefit from expenditures incurred. The Special Clauses and Conditions section in the grants require grantees to obtain an approved CAP or indirect cost rate. Also, under certain circumstances, the grantee may obtain approval of a special indirect cost ceiling or a temporary billing rate. The following discusses the circumstances of one grantee which was given an indirect cost ceiling, two which needed to update their plans, and five grantees that did not have approved CAPs.

One grantee with an administrative cost ceiling budgeted at \$750,000 and an approved indirect cost ceiling of \$200,000, has administrative costs consisting of both direct and indirect costs. The grantee had planned to charge its indirect costs based simply on a percentage of the indirect cost ceiling. However, costs charged to the program must be based on actual expenditures. The cost allocation plan should include a methodology for allocating indirect and direct costs to the funding sources that benefit from the actual incurred expenditures.

Two other grantees needed to update their CAPs or indirect cost rates. The first grantee's CAP required updating to ensure that it provides the justification and methodology for establishing accruals at the end of each calendar quarter, instead of annually, as planned. The second grantee has an approved indirect cost rate. The plan needs to address the allocation of administrative and technology/computerization costs on the Quarterly Financial Status Report (QFSR).

We also found five grantees that did not have CAPs or indirect cost rates. Two of the five grantees plan to charge only direct costs to the WtW program. Charging indirect costs and establishing cost pools are not planned nor do the grantees believe a cost allocation plan or indirect cost rate needs to be developed and approved. However, this approach may result in other Federal programs being charged for some indirect costs attributable to the WtW program. Moreover, charging costs directly to the WtW program still leaves a cost allocation strategy to be developed for allocating to the 70/30 percent participant groups on the QFSR.

The other three grantees did not have cost allocation plans or indirect cost rates approved by DOL's Office of Cost Determination (OCD). We suggested that the three grantees submit their cost plans with supporting documents to OCD for approval.

In all eight cases, the grantee CAP or auxiliary plan should address the equitable distribution of all costs, including the administrative costs and technology/computerization expenditures, which must be allocated in accordance with the 70/30 percent criteria provisions of 20 CFR 645.212 and 645.213 and reported on the QFSR.

An approved CAP is essential for accurate identification, accumulation and reporting of costs associated with the WtW program. A CAP is even more critical when the program is administered by an organization operated with funds provided by several different funding sources. Moreover, accurate reporting of costs is essential to effectively manage the WtW program at the grantee and Federal levels.

b. Cash Management and Other Fiscal Integrity Concerns

Three grantees (25 percent) need to establish better internal controls over cash management to ensure that WtW cash available to them and their subrecipients will be handled in accordance with the requirements of the grant agreement and Federal regulations. Another two grantees had provisions for program income which should be used to further program activities. In addition, other fiscal integrity concerns involved appropriate controls over various financial circumstances which could expose WtW funds to the risk of unauthorized use.

Cash Management

Two grantees violated cash management requirements by maintaining cash balances in excess of their immediate cash needs. One grantee maintained a cash balance of \$9,741 for a period of 35 days, which increased to \$25,425 over the next 12 days. Incurred costs for the period totaled \$18,739, or a difference of \$6,686. A second grantee maintained a cash balance in excess of \$400,000 over a period of 14 days.

For higher education and nonprofit organizations, cash drawdowns must be based on immediate cash requirements according to 29 CFR 95.22(a), which states, "*Payment methods shall minimize the time elapsing between the transfer of funds . . . and the issuance or redemption of checks. . . .*" Additionally, 29 CFR 95.22(l) requires that interest over \$250 earned on advances shall be remitted annually to the Government. Finally, the grant stipulates that payments are to be drawn down as needed to cover a 48-hour period of expenditures.

For State and local governments, a grantee has an obligation under the cash management requirements in 29 CFR 97.20(7) which states, ". . . grantee must make drawdowns as close as possible to the time of making disbursements. . . ." Additionally, 29 CFR 97.21(i) requires that interest over \$100 earned on advances shall be promptly remitted to the Government.

Again, the grant stipulates that payments are to be drawn down as needed to cover a 48-hour period of expenditures.

When institutions of higher education or private nonprofit organizations are funded on a cost reimbursement basis, OMB Circular A-110.22 (f) states, “. . . *the Federal awarding agency shall advance cash to the recipient to cover its estimated disbursement needs for an initial period generally geared to the awardee’s disbursing cycle. Thereafter, the Federal awarding agency shall reimburse the recipient for its actual cash disbursements. . . .*”

A third grantee which is a nonprofit organization, planned to be on the reimbursement basis for cash drawdowns associated with the WtW program. However, subrecipient contracts contain a provision for cash advances up to 20 percent of the subrecipient contracts. This provision would exceed the Federal cash management requirements, because it is not tied to the subrecipients’ disbursing cycle.

Program Income

The grantee with the \$400,000 cash balance also expects to earn program income from activities such as TANF reimbursements for child care and for transportation. In addition, the grantee may receive child care payments from WtW participants and charge participants \$1.00 per van ride. Program income can be used only to provide additional services to WtW participants. Therefore, the grantee needs to include in its program budget an estimate of the income expected to be earned and the expected uses of those funds in accordance with requirements to provide additional services to WtW participants.

Another grantee’s WtW program contains a component which involves a 16-week internship at participating investment firms or partnering agencies. Participants earn \$6 an hour and are paid through a combination of JTPA Title II-A funds and other non-WtW grant funds. However, **the employers pay the grantee \$8 an hour for the participant’s work**. Since the participants are paid \$6 an hour with Federal funds, we consider the \$8 an hour payment to the grantee to be program income and should be used to further the program objectives. [29 CFR 95.24(a)]

Other Fiscal Integrity Concerns

Four grantees’ financial circumstances indicated a potential risk that WtW funds may be used for non-WtW activities. One grantee had a projected \$193,210 cash flow shortfall for Fiscal Year 1998 regarding its non-grant operations. Subsequently, its defined benefits pension plan was frozen to help eliminate a shortfall and the grantee restructured its debt during February 1999. A second grantee planned to use WtW funds to purchase books and uniforms available under a TANF grant. TANF would reimburse WtW for the expenditures at a later date. However, this arrangement was not provided for in the grant agreement and depending on the timing of such transactions, may distort the reporting of WtW expenditures for the period.

Another grantee (this grantee also had cash management issues) uses off-the-shelf paper for printing payroll checks and vendor payments. The computer system generates the

approving officials' signatures on the checks. It is our understanding that the payment process is self-contained in the controller's department. However, the department does not have specific controls over the custody of the unused (un-printed) check paper. The check printing system also allows previous checks to be reprinted using the computer generated check number.

A fourth grantee's internal controls required a listing of authorized signatures for receiving funds through the Department of Health and Human Services (DHHS) Payment Management System. Because the listing is held by the Grant Officer's Technical Representative (GOTR) in the ETA regional office, the effectiveness of this control may be weakened. We suggested that the grantee also maintain a copy of the signatures in its files.

c. Inadequate Time and Attendance Systems

Five grantees (42 percent) have not established adequate time and attendance systems to accurately identify and allocate time devoted to the WtW grant activities. As a result, allocation of incurred costs that benefit eligible WtW participants were not properly controlled to ensure the WtW funds would pay only for allowable activities.

For State and local governments, OMB Circular A-87, Attachment B.11.h(4) requires that distribution of salaries or wages paid to employees working on *multiple* (Federal and non-Federal) activities or cost objectives must be supported by a personnel activity report or equivalent documentation which accounts for the *total* time and activities for which each employee is compensated. In addition, DOL regulations at 29 CFR 97.20(6) state in part that, ". . . Accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records. . . ." Similar requirements are defined for higher education and nonprofit organizations in 29 CFR 95.21(b)(7).

Two grantees planned to either allocate staff hours to the WtW program or charge the salaries of certain staff, such as a job developer, using predetermined percentages of time or budgeted dollar amounts included in their proposals. For instance, because 25 percent of the WtW Director's salary was proposed in the budget, 25 percent would be charged to the WtW program without further supporting evidence that 25 percent was the correct allocable amount to be charged. Similarly, a third grantee had no timekeeping requirements for allocating salaries of managers and staff to program activities, as defined by the activities in Section I and Section II of the Quarterly Financial Status Report, and the 70/30/15 percent cost limitation categories.

Salaries of managers and staff may not be allocated to program activities using predetermined percentages or charges. Therefore, actual time spent on activities should be supported by time and attendance records including timesheets and a time distribution system.

A fourth grantee did not have a time and attendance system in place. The director was on salary with another Federal agency. She planned to charge the WtW program for time spent outside of her normal working hours of 8 a.m. to 5 p.m. Time charges included work

conducted at the office and at home. However, the director was available for our survey inquiries regarding the WtW program during the 8 a.m. to 5 p.m. period, for which the other Federal program was paying her salary. The grantee's current method of recording the number of hours worked on timesheets for only WtW activities, does not fully comply with Federal timekeeping requirements.

A fifth grantee does not require its staff to complete a timesheet or to sign in or out of the office. The grantee is currently developing a new personnel manual that will include additional time and attendance procedures.

A complete time and attendance system would include a daily sign-in/out log with times for beginning and ending work hours. The total hours worked would be incorporated into a timesheet showing the number of hours worked per day on various programs, activities and cost categories. The timesheets would be signed by the employee and a supervisor who reviews the time charges and compares the hours reported on the timesheets to the daily sign-in/out log. Time distribution reports would summarize the charges according to the programs, activities and cost categories.

In these cases, time and attendance records are necessary to accurately identify and accumulate costs associated with the WtW grants and authorized activities. Time distribution reports are a necessity for all activities for which the staff is receiving salaries and wages from multiple funding sources, whether the funds are provided from other Federal programs or non-Federal programs. OMB Circulars A-87, A-21 and A-122 (Federal Cost Principles) require that personnel costs charged to Federal programs be supported by time and attendance records. If an individual's salary is funded by more than a single program, a time allocation system must support the personnel costs charged to Federal programs.

d. Reporting Program Costs Without a Basis for Allocation

Seven grantees (58 percent) did not have enrollments⁴ at the time of our review (see Appendix 5). Six of the seven grantees had incurred costs as of our visit. Some of the grantees either reported expenditures based on an arbitrary allocation, or had not distributed costs according to cost categories. In some cases, there were no participants to establish a basis for the allocation. As a result, the funds being allocated and reported did not accurately represent the actual costs of services provided to the 70 percent (required participants) or to the 30 percent (permitted participants).

Welfare-to-Work legislation requires that at least 70 percent of grant funds must be spent for those welfare recipients who will have the most difficulty moving from welfare to employment. Essentially, these are long-term welfare recipients who have two of three specified barriers to employment: (1) did not obtain a high school diploma or GED and has low reading or math skills, (2) requires substance abuse treatment for employment, or (3) has a poor work history. The legislation also permits up to 30 percent of the funds to

⁴ One grantee's only enrollment came after reporting incurred costs on the QFSR.

be spent on welfare recipients who have characteristics of long-term welfare dependence, such as dropped out of school, teenage pregnancy or poor work history. As a consequence of these requirements, funds spent by the grantees must be accounted for according to the 70/30 percent cost split.

We found that two grantees without enrollments (during the period) reported incurred costs on the QFSR. The first grantee reported \$16,923 in administrative expenditures as their only cost category. A second grantee did not have an enrollment until after the first quarter and reported incurred costs of \$14,423 on the QFSR (for the period ending 3/31/99). However, the incurred costs did not have a basis for allocation, since there were no enrollments. Therefore, the \$14,423 in total Federal expenditures and \$8,374 in administrative costs were the only cost categories reported. Expenditures were not reported on line five which distributes costs to the 70/30 percent participant groups. Future reports should be adjusted for this discrepancy and costs redistributed to the 70/30 percent required categories with supporting documentation for the rationale used.

Another grantee with 29 enrollments reported \$60,639 in Federal expenditures and \$4,130 in administrative costs on the QFSR. The entire \$60,639 was charged to the 70 percent cost category (minimum required beneficiaries).

Most grantees, by necessity, expended funds for grant administration and establishment of the infrastructure for the WtW program before participants were enrolled. For instance, grantees paid salaries and fringe benefits to their staff, and incurred travel costs for staff to attend training provided by ETA. Other start-up activities were funded, such as costs for space requirements, start-up supplies and equipment.

These costs will ultimately benefit eligible participants once they enter the WtW program. However, the program requires the allocation to be made based on the characteristics of the eligible population served and the benefits received. Therefore, without enrollments, the allocations cannot reflect the actual distribution and do not represent the information intended when the requirement was established.

Recommendations:

We recommend that the Assistant Secretary for Employment and Training provide guidance and assistance to all grantees regarding the need to:

- S** develop cost allocation plans, if the grantee receives funds from different funding sources to carry out their programs;
- S** develop cost allocation plans to distribute all costs to the 70/30 percent required cost categories and to WtW program activities;
- S** use WtW funds for only grant purposes and to comply with cash management requirements; and
- S** comply with the time and attendance requirements in the OMB circulars.

We also recommend that the Assistant Secretary issue instructions to:

- S** establish a consistent methodology for allocating and reporting costs incurred before substantial enrollments have occurred. ETA may elect to arbitrarily allocate incurred costs to the 70/30 percent categories, or may elect to delay allocations until some specified number or percentage of program enrollments are made. In either case, grantees must be instructed to redistribute to the 70/30 percent categories (as enrollments are accomplished) those funds spent and reported before enrollments occurred.

Agency Response and Auditor's Conclusions

In responding to our draft report, the Assistant Secretary for Employment and Training stated:

“ . . . we plan to issue policy guidance on a number of new fiscal and eligibility issues that have emerged over the course of program implementation. In addition, we plan to issue policy guidance to our WtW competitive grantees reiterating policies that are already in place.” (See Appendix 7 for the Agency's complete response.)

We concur with the Agency's planned corrective actions.

3. WtW Grantee Policies and Procedures Need Strengthening

We found that many of the 12 second round grantees lacked formal agreements with TANF agencies, formal eligibility procedures and written WtW policies and procedures. New issues addressed in this report include the lack of written agreements with subgrantees and service providers, and the lack of written oversight and monitoring procedures.

a. Lack of Formal Agreements with Subrecipients and Service Providers

Four grantees (33 percent) have not developed formal agreements with subrecipients that fully define the roles and responsibilities of each agency. Informal relationships and procedures could lead to misunderstandings for grantees in complying with WtW requirements and program delivery. Therefore, it is in the grantee's best interest to reduce to writing their relationship with their subgrantees so that each agency's roles and responsibilities can be clearly defined.

DOL regulations at 29 CFR 95.47-48 require recipients to define a sound and complete agreement to ensure contractor conformance with the terms, conditions and specifications of the contract and to ensure adequate and timely follow up of all purchases. The regulations further direct recipients to evaluate contractor performance and document whether contractors have met the terms, conditions and specifications of the contract. Agreements with the subgrantees should include a description of the services to be performed, applicable performance standards, and a detailed project budget. The agreements should also include statements of assurance that the subgrantees will adhere to Federal regulations including eligibility requirements, OMB Circulars, and DOL reporting requirements.

One grantee believes that transportation will be a significant portion of the support services offered to participants, once they start working. As of April 1999, the grantee did not have a contract in place to provide the transportation services nor has the grantee developed monitoring procedures. Based on responses from existing transportation companies surveyed earlier in the year, a better description of the transportation services needs to be developed before a Request for Proposals (RFP) is issued. The description should include clarification of what type of costs are acceptable, comparison with other available transportation offered, and identification of any unique costs (such as administrative or direct costs) related to the services.

Three other grantees do not have written agreements with their subgrantees which provide for the terms and conditions of their relationships. Written agreements with subrecipients are important to assure sound and complete agreements. The written agreements provide assurance that the terms, conditions and specifications will be met.

b. Lack of Written Oversight and Monitoring Procedures

Three grantees have not developed written subgrantee and participant worksite oversight and monitoring procedures. As a result, these grantees do not have an established methodology to determine whether the subgrantees and worksites are performing program services in compliance with WtW requirements.

DOL Regulations at 29 CFR 95.51 establish that recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award and that recipients shall monitor subawards to ensure subrecipients have met the audit requirements of Sec. 95.26.

Two grantees need to develop written oversight and monitoring procedures for all of their subgrantees and worksites. A third grantee's monitoring procedures do not include provisions for periodic review, verification and reporting of program accomplishments and documentation from external parties to corroborate information reported by the subgrantees. The grantee's oversight and monitoring procedures should also include guidance for reviewing activities at both the recipient and subrecipient levels, issuing monitoring reports and resolving findings.

Recommendations:

We recommend that the Assistant Secretary for Employment and Training issue guidance to emphasize:

- S** development of formal written agreements between the grantees and their subrecipients and service providers to avoid misunderstandings and ensure proper administration of the WtW grants; and
- S** the need to develop formal written procedures to provide oversight and monitoring of program operations at subgrantees and participant worksites.

Agency Response and Auditor's Conclusions

In responding to our draft report, the Assistant Secretary for Employment and Training stated:

"In those instances where your report indicates a need for specific follow-up, we will instruct GOTRs to ensure that grantees are implementing corrective actions where appropriate." (See Appendix 7 for the Agency's complete response.)

We agree with the Agency's planned corrective actions.

4. Internal Controls Over Programmatic Compliance Need Strengthening

Our review of the second round grantees found a number of programmatic issues that differed from those identified in our previous report. The new issues are briefly described in this paragraph and in more detail on the following pages. We found that some of the grants included funds for evaluation studies which may not be an allowable activity. We also noted other miscellaneous issues which may require modifications to the grants to establish viable goals and outcomes. Moreover, two grantees failed to provide fully developed plans for start-up activities for child care and transportation which would ensure that these services would be completed in time to benefit current grant participants.

a. Grants Included Evaluation Studies Which May Not Be An Allowable Activity

We found 3 of the 12 grants (25 percent) contained provisions for evaluation studies. Such evaluation studies are not included in the allowable activities found in section 645.220 of the WtW regulations and provide no service or benefit to current participants. If the evaluation studies were allowed, they would use significant portions of the funding earmarked to help welfare participants find and keep employment. The three grants with evaluation studies are as follows:

- C The first grant contained a contract with a university for a \$118,650 study to identify employers in the area that have hired welfare participants in the past and evaluate the commuting requirements for those participants.
- C A second grant contained a \$196,048 proposal to become part of a national impact and cost-effectiveness evaluation study. The arrangement for the study was with a local community college on a reimbursement basis. It appears this evaluation study was an addition to the original budget narrative.
- C A third grant contained an addendum with provisions for a proposal for a \$160,000 impact and cost-effectiveness evaluation project on a reimbursement basis. There was no indication in the grant that the study was approved or funded. The study would provide opportunities for learning about effective strategies for hard-to-employ recipients, while providing work experience and post-employment training and services.

The three grants included a total of \$474,698 for evaluation studies. Under provisions of § 645.235(b)(1)(ix) of the WtW regulations, the cost of, “*Evaluating program results against stated objectives . . .*” is an allowable administrative cost (subject to the administrative cost limitation). However, the costs of research or other related studies, unless specifically tied to a direct participant service to be provided in the course of the grant, are not allowable.

The purpose of WtW grants is to place and retain individuals into lasting unsubsidized employment. For costs to be allowable under WtW, funds must be spent on authorized program activities, be allocable to the grant, and be necessary and reasonable for proper and efficient performance and administration of the award. The Balanced Budget Act and WtW regulations provide operating entities with a comprehensive list of allowable

services which the entities may provide to eligible WtW participants to help move the participants from welfare dependency to lasting unsubsidized employment and economic self-sufficiency.

Allowable activities authorized by WtW regulations are summarized in Appendix 3 to this report. None of these listed activities include provisions for evaluation studies. Furthermore, funds appropriated for WtW for fiscal years 1998 and 1999 include a set-aside of \$18 million for program evaluations. We believe that the funds budgeted for evaluation studies do not meet the requirements to be allowable WtW costs.

The first grant which included an evaluation study contains provisions for a 30-month agreement with a university. The \$118,650 agreement requires the university to provide new information to the grantee about the location and basic descriptors of the kinds of businesses that hire, retain, and train welfare recipients. This agreement is part of a larger study scheduled to take place in four other metropolitan areas across the nation. The population to be studied is AFDC/TANF recipients for the period beginning July 1990 to the present. The study planned to match welfare participants in the metropolitan area with wage records. The historical welfare information also would have been used to identify the spatial structure between welfare participants and employer addresses in the transition from welfare to work.

The other two grants contained proposals for an impact and cost-effectiveness evaluation studies. The grantees would like to participate in the national initiative. However, the budgets for these grants do not clearly show the availability of funds for the studies. Therefore, neither the grants nor the proposals were clear as to the source of funds to pay for the studies. The grant documents indicated only that the evaluation studies would be funded on a reimbursable basis.

We consider these evaluation studies to be unallowable activities. The studies do not provide direct benefit to current participants. It is our opinion that the studies should be removed from the grant, and costs of the studies reallocated to activities that directly serve participants.

b. Other Grant Provisions Need to be Modified

Our review identified seven grants that need to be modified so that the documents serve as a bona fide agreement and useful management tool. Specifically, we found that grants needed to be modified to acknowledge the effects of changes in funding levels, performance measurement and schedules, to record the transfer of the administrative agency, and for changes requiring the grant officer's approval.

Reduction in Funding

The performance measurements need to be modified for one grantee to reflect a 25 percent reduction in program funding. Originally, the grantee requested \$6,626,081 in funding, but \$5,000,000 was awarded. However, the performance measurements in the

grant were not changed and are still based on the original funding levels. We also noted that the budget summary agrees with the award amount, however, the budget narrative has a shortage of \$448,095. The budget narrative needs to be revised to agree with the grant award and the budget summary.

Implementation Schedule

The implementation schedules for five grantees need to be adjusted to reflect realistic performance standards. A couple of the implementation schedules were based on the WtW programs which were expected to start in late calendar year 1998. However, the grants were not awarded until January 1999 and some of the grantees did not have enrollments even at the time of our reviews, which were performed during the second quarter of this year. The following is a brief description of adjustments that need to be made:

- C The implementation schedule for the first grantee shows 120 enrollments for the period through June 1999. Since the grantee does not anticipate enrollments until June, the implementation schedule needs to be modified to reflect a more realistic enrollment timetable.

- C A second grantee does not expect any enrollments until May 1999. The implementation schedule in the grant shows 200 enrollments by the end of May. Again, this schedule may need to be revised to show realistic performance goals.

- C A third grantee's implementation schedule shows that 280 enrollments and 202 placements were planned by the end May 1999. At the end of April, the grantee had 139 enrollments and 32 placements based on their performance reports. One reason for not attaining the performance goals is that the implementation schedule begins in September 1998, while the grant was awarded 4 months later, in January 1999.

- C A fourth grantee did not have any enrollments until April 1999. However, the implementation schedule in its grant indicated 20 enrollments for the first quarter and 38 enrollments in the second quarter.

- C A fifth grantee may need to replace its outdated performance measurements. Enrollments in the WtW program are not expected until about June 1999. The implementation schedule shows 200 enrollments by the end of the June 1999.

In order for the implementation schedule to be a useful tool, the schedules should be modified to include realistic attainable periodic benchmarks.

Other Grant Modifications

Besides revising the grants' financial and performance data, we noted a number of additional areas for which the grants need to be modified to ensure that the grantees are in compliance:

- C One grant was awarded to an agency of city government. The responsibility for the grant and the director transferred to a local nonprofit agency. The grant should be modified to reflect this change for proper oversight and administration of the WtW program.
- C The same grantee also needs to revise its budget summary. The total direct cost (Line 8) should be revised to \$5,000,000, instead of the current \$4,311,087, which is the total for contractual costs.
- C Additionally, this grantee requested changing the Project Administrator's salary from \$35,000 to \$20,000; increasing the Project Coordinator's salary from \$35,000 to \$40,000; and hiring a consultant at \$10,000.

The GOTR stated that the changes are allowable within Clause #1 of the Special Clauses section of the grant which states, "*Flexibility is allowed within the grant budget (except wages, salaries and fringe benefits) provided no single line item is increased or decreased by more than 20%. Changes in excess of 20% and any changes in wages, salaries and fringe benefits, MUST receive prior approval from the Grant Officer. Any changes in mix or match with the wages and salaries line does not require a grant modification. . . .*" However, transferring \$10,000 of the funds from salaries to fees for a consultant would be outside the range of wages and salaries, and therefore, would require the Grant Officer's approval.

- C A second grantee needs to revise its grant by including fiscal staff salary expenses in the budget; provide a description for issuing payments to participants for referral of family and friends; and revise the disbursement payments to participants for up to \$300 for support services. Currently, the grant indicates that the \$300 paid on behalf of the participant would be a reduction from the \$1,800 post-employment retention voucher.

c. Start-up Activities to Provide Child Care and Transportation Services Are Not Fully Developed

Two grantees did not fully develop plans on how to spend \$4.8 million budgeted for child care and transportation services. Because important aspects of the plans were not finalized (e.g., one of three child care sites was not yet determined, and questions exist regarding the timing and need to purchase 30 vans), it is uncertain whether the services would be implemented in time to serve current WtW program participants.

Controls should be in place for reviewing grantees' plans which consists of letters indicating local concurrence and ETA's grant award process. The award process is used to review the grantee's plans submitted in the proposal for grant funds. ETA encourages coordination between the Private Industry Council (PIC), the grantee, TANF and others. We believe such coordination is essential for effective child care systems and for effective transportation systems. ETA Guidance Letter 10-98 states that, "*PICs are expected to coordinate local community resources to provide transitional employment assistance (particularly supportive services such as child care and transportation) to the WtW population.*"

Our review found that plans submitted by these two grantees in their proposals for WtW funds were not fully developed, and may not materialize as planned. The result may engender significant sums of grant funds available for reprogramming. We believe that ETA should closely monitor the development of these plans to ensure WtW funds are used effectively and efficiently to serve the current grant participants.

Child Care Centers

One grantee budgeted \$1,927,456 of WtW funds for three child care facilities. Two sites have been located, but are not open, and the grantee has not located a site for the third (the largest) child care facility. Included in the budget are routine expenses for salaries and fringe benefits of as many as 53 workers (who will be program participants), including child care workers, healthcare workers, food service workers and guards. In addition to the \$1.9 million, the grant also provides \$600,000 for renovation at the child care sites. Whether all of the budgeted funds will be spent is contingent upon many factors, including whether all of the sites are needed to service participants, the condition and suitability of the selected facilities for child care and any delay in getting started related to the need to complete facilities' renovations, and the numbers and locations of the participants and their children. Should the needs be significantly less than the projections made, then significant sums would need to be reprogrammed to other uses authorized by the WtW legislation.

To differentiate the grantees' plans from currently available child care, the grant states that "*. . . none of these facilities (child care facilities) offer support in the case of a sick child which may keep the parent from reporting to work and there is no 24-hour child care service in the area to serve parents who may work on second and third shifts. Moreover, there is a limited availability of after-school licensed or registered care.*"

Nevertheless, county government estimates that there are several hundred child care facilities in the area. Additionally, an earlier study projected that 45 percent of the facilities offer second and third shift child care. Moreover, the grantee is currently using local child care providers for the children of enrolled WtW participants. We believe these facts support our conclusion that ETA should closely monitor the progress being made by the grantee and elicit local community comments regarding the need for and economy of the grantees' child care activities.

Construction

The second grantee plans to use WtW funds to lease space in a church for child care and use \$55,000 in WtW funds to renovate the restrooms to allow for wheelchair access (Americans with Disabilities Act requirement). This renovation and the \$600,000 planned renovation of the first grantee may conflict with the prohibition of using Federal funds for construction or purchase of facilities or buildings, except where there is explicit statutory authority permitting it. The grantees' approved budgets identified the renovation projects. However, these renovation projects may rise to the level of construction and therefore should be closely monitored for compliance with the prohibition on construction.

Transportation

The first grantee budgeted \$540,000 of its WtW funds to purchase 30 vans to provide transportation for eligible participants to and from interviews and worksites so that participants can obtain and retain jobs. The budget also provides for transportation to take participants' children to child care facilities. An additional \$700,568 of WtW funds were budgeted to cover operating and maintenance costs, including 15 van drivers' salaries and fringe benefits (\$348,480). These drivers are expected to be participants. The grantee has purchased three vans to date. The vans purchased in the future will be used for only 2 years, or less, before the grant expires. Lease versus purchase analysis [as stated in OMB Circular A-110.44(a)(2)] and better coordination with local agencies might lead to a more cost effective transportation system.

The local Transit Authority, in a letter to the grantee dated May 25, 1999, expressed its concerns regarding the grantee's transportation system, stating:

- 1) The van service will cause duplication of transit services in the local area.
- 2) Duplication **may** cause the Transit Authority drivers and mechanics to lose employment.
- 3) Scheduling and dispatch capabilities will soon be overwhelmed by individual WtW participant transportation demands.
- 4) Insurance requirements for the type of van service planned by the grantee are significant and may be cost prohibitive.

However, the grant states, "*The City . . . will work with the Work First Program and (the)*

Project . . . to provide job placements, develop a mini-transportation system and provide on-the-job training sites and mentors.”

The second grantee planned to devote \$125,000 of WtW funds to cover the costs involved in transporting participants to jobs in the local area. The Red Cross will provide three vans for this transportation project and will employ participants as van drivers.

The plans of these grantees are subject to contingencies similar to those impacting the child care plans. Budgeted funds are contingent upon factors such as whether all of the planned vans and drivers are needed to service participants and the locations of participants and their children. Contingencies also include the availability of alternative transportation. Should program needs be significantly less than the projections made, significant sums would need to be reprogrammed to other uses authorized by the WtW legislation.

In each of these cases, we conclude that child care and transportation services should be made available when and where needed, for all eligible WtW participants. ETA should carefully monitor the plan and ensure timely implementation. We believe the options of purchasing or leasing services, rather than buying expensive equipment or making renovations to properties, should be considered if extended delays become apparent. The start-up activities will not be ready immediately, and may not be used by the WtW program for an extended period of time.

Recommendations:

We recommend that the Assistant Secretary for Employment and Training ensure that:

- S budgeted funds for evaluation studies are reallocated to allowable activities authorized by the Balanced Budget Act and WtW regulations;
- S grants are modified, as necessary, to reflect final funding levels, performance goals, and that budget narrative statements agree with the award amounts;
- S grantees do not violate prohibitions of using Federal funds for construction; and
- S GOTRs closely monitor the progress of the child care and transportation services to ensure the operations of these facilities and services are cost effective and completed in time to serve current WtW program participants.

Agency Response and Auditor's Conclusions

In responding to our draft report, the Assistant Secretary for Employment and Training stated:

“In those grants that included an inappropriate evaluation component, we will follow-up to ensure that these costs are removed from the relevant grant documents. In addition, we will ensure that unallowable evaluation activities are not included in Round 3 grant awards.”

“We are in the final planning stages for WNW (sic) Financial Management training in four locations around the country (Washington, D.C., Atlanta, GA, Dallas, TX, and Los Angeles, CA). These sessions will be offered in October and November, and a final Session will be offered in the Round Three competitive grantees at their orientation session in January. Wherever possible, we are incorporating findings from your reports into the training curriculum.” (See Appendix 7 for the Agency's complete response.)

We concur with the Agency's planned corrective actions.

Second Round Grantees with Parallel Findings From the First Round

| Grantee | Finding 1 | | | | | | |
|---|--|---|--|--|---------------------------------------|---|---|
| | Inadequate Internal Controls Over Cost Limitations | Inadequate Management Information Systems | Inadequate Internal Controls Over Financial Reporting ⁵ | Lack of Formal Agreements with TANF Agencies | Lack of Formal Eligibility Procedures | Lack of Written Policies and Procedures | Grants Need to Comply with Work First and FLSA Requirements |
| Chicago Housing Authority | X | | | | | X | |
| Columbus Urban League | X | X | | | | X | |
| Full Employment Council | | | | | | | X |
| City of Gary, Department of Health and Human Services | X | X | | | X | X | |
| Community and Economic Development Association of Cook County | X | X | | | X | X | |
| Wildcat Service Corporation | | | | X | X | X | |
| Action for Boston Community Development | | | X | | | | X |
| Bennett College | X | X | X | | X | X | |
| San Diego Workforce Partnership | X | | | X | X | | |
| Richmond Private Industry Council | | | X | X | | X | |
| District 1199C Training and Upgrading Fund | X | | X | X | | X | |
| Alexandria Redevelopment and Housing Authority | X | | X | X | X | X | X |
| Total Second Round Grantees Per Finding | 8 | 4 | 5 | 5 | 6 | 9 | 3 |
| Percent of 12 Second Round Grantees | 67% | 33% | 42% | 42% | 50% | 75% | 25% |
| Total First Round Grantees Per Finding | 22 | 11 | 16 | 14 | 12 | 27 | 6 |
| Percent of 35 First Round Grantees | 63% | 31% | 46% | 40% | 34% | 77% | 17% |

Appendix 2

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⁵ For Round 2, the discussion of Inadequate Controls Over Financial Reporting includes comments on Inadequate Management Information Systems. Additionally, the FLSA and “Work-first” findings from the first round were combined for comparison with the second round.

Matrix of New or Slightly Different Findings for Second Round Grantees

| Grantee | Finding 2 | | | | Finding 3 | |
|---|---|---|--|---|--|---|
| | Cost Allocation Plans for Multi-funded Grantees | Cash Management and Other Fiscal Integrity Concerns | Inadequate Time and Attendance Systems | Reporting Program Costs Without a Basis | Lack of Formal Agreements With Subrecipients | Lack of Written Oversight and Monitoring Procedures |
| Chicago Housing Authority | X | | | X | | |
| Columbus Urban League | | X | X | X | | |
| Full Employment Council | X | | | X | | |
| City of Gary, Department of Health and Human Services | X | X | X | X | X | |
| Community and Economic Development Association of Cook County | | | | | | X |
| Wildcat Service Corporation | X | X | | | X | |
| Action for Boston Community Development | X | | X | X | | |
| Bennett College | X | X | X | | | |
| San Diego Workforce Partnership | X | X | | X | | |
| Richmond Private Industry Council | | X | | | | |
| District 1199C Training and Upgrading Fund | X | X | | | X | X |
| Alexandria Redevelopment and Housing Authority | | | X | X | X | X |
| Total Grantees Per Finding | 8 | 7 | 5 | 7 | 4 | 3 |
| Percent of 12 Grantees | 67% | 58% | 42% | 58% | 33% | 25% |

Matrix of New or Slightly Different Findings for Second Round Grantees

| Grantee | Finding 4 | | |
|---|------------------------------------|--|---|
| | Grants Included Evaluation Studies | Other Grant Provisions Need to be Modified | Start-up Activities to Provide Child Care and Transportation Services Are Not Fully Developed |
| Chicago Housing Authority | | X | |
| Columbus Urban League | | X | |
| Full Employment Council | X | X | |
| City of Gary, Department of Health and Human Services | X | X | |
| Community and Economic Development Association of Cook County | | X | |
| Wildcat Service Corporation | | | |
| Action for Boston Community Development | | X | |
| Bennett College | | | X |
| San Diego Workforce Partnership | X | X | X |
| Richmond Private Industry Council | | | |
| District 1199C Training and Upgrading Fund | | | |
| Alexandria Redevelopment and Housing Authority | | | |
| Total Grantees Per Finding | 3 | 7 | 2 |
| Percent of 12 Grantees | 25% | 58% | 17% |

Overview of Principal Criteria

The following is an overview of the principal criteria for the WtW program as summarized from the WtW regulations.

- ! Purpose of the WtW Program:
 - C To facilitate the placement of hard-to-employ welfare recipients in lasting unsubsidized employment and self-sufficiency.
 - C Provide a variety of placement activities featuring the “*work-first*” philosophy.
 - C To provide a variety of post-employment and job retention services.
 - C Target hard-to-employ welfare recipients in high poverty areas. (20 CFR 645.110)

- ! Work-First:

Placing individuals in employment activities before providing support services such as basic skills training, child care and transportation. Job readiness, employment activities and placement services are the only allowable preemployment activities.
(20 CFR 645.110) and (20 CFR 645.220)

- ! Funds Spent:
 - C At least 70 percent must benefit the hard-to-employ individuals.
 - C No more than 30 percent must be used to assist individuals with long-term welfare dependence characteristics. (20 CFR 645.211)

Overview of Principal Criteria

- ! 70 Percent Eligibility Provision:
- (a) Must meet all three criteria:
 - 1. Currently receiving TANF assistance;
 - 2. Participant must meet two of the three barriers to employment:
 - A. has not completed secondary education or obtained GED and has low reading and math skills,
 - B. requires substance abuse treatment for employment, or
 - C. has a poor work history (worked no more than 3 of the last 12 months);
 - 3. Receiving TANF for at least 30 months or will become ineligible for assistance within the next 12 months.
 - (b) A noncustodial parent of a minor, if the custodial parent or minor children meet the criteria in (a) 1 & 3 and the noncustodial parent meets two of the three barriers to employment. (Revised according to the Technical Amendment)
 - (c) An individual who meets two of the three barriers to employment and would be eligible to receive TANF, but has reached the lifetime limitation.
(20 CFR 645.212)
- ! 30 Percent Eligibility Provision:
- (a) The individual is receiving TANF and has characteristics associated with long-term welfare dependence:
 - 1. dropped out of school,
 - 2. teenage pregnancy,
 - 3. poor work history, or
 - 4. other approved characteristics.
 - (b) A noncustodial parent of a minor child, if the noncustodial parent has long-term characteristics specified in (a) and the custodial parent is receiving TANF assistance.

Overview of Principal Criteria

- (c) An individual who has characteristics associated with long-term welfare dependence and would be eligible to receive TANF, but has reached the lifetime limitation. (20 CFR 645.213)

- ! Mechanisms Must be in Place to Determine Eligibility:
 - C The grantee must make arrangements with the TANF agency to ensure that WtW eligibility determination is based on current information and whether an individual is receiving TANF assistance.
 - C The assessment may include a determination of the barriers to employment.
 - C Information collected by the TANF agency may be valid for up to six months prior to the WtW eligibility determination.
 - C Mechanisms must be in place to determine eligibility for individuals not receiving TANF and for those who have reached their lifetime limitation.
 - C Eligibility for WtW need not be redetermined after services are received. (20 CFR 645.214)

- ! Allowable Activities:
 - (a) Job Readiness
 - (b) Employment Activities:
 - Community Service Programs
 - C Work Experience
 - C Job Creation through wage subsidies
 - C On-the-Job Training
 - (c) Job Placement Services using vouchers or contracts
 - (d) Post-employment Services:
 - C Basic educational skills training
 - C Occupational skills training
 - C ESL training
 - C Mentoring

Overview of Principal Criteria

- (e) Job retention and support services:
 - Ⓒ Transportation assistance
 - Ⓒ Substance abuse treatment
 - Ⓒ Child care assistance
 - Ⓒ Emergency or short-term housing
 - Ⓒ Other supportive services
- (f) Individual Development Accounts
- (g) Routine activities such as intake, assessment, eligibility determination, Individual Service Strategy and case management. (20 CFR 645.220)

! Job Placement Contracts or Vouchers:

Job placement contracts or vouchers must include a provision that at least one-half of the payments occur after the individual is placed in an unsubsidized job for six months.

(20 CFR 645.230)

! Administrative Costs:

Competitive grants administrative expenditures are limited to a specified percentage in the grant agreement not to exceed a maximum of 15 percent. (20 CFR 645.235)

Administrative costs are overall management costs not directly related to providing services to participants. These costs can be related to personnel and non-personnel activities and may include both direct and indirect costs. (20 CFR 645.235)

Examples of administrative costs include the following activities:

- Ⓒ Directors
- Ⓒ Personnel
- Ⓒ Fiscal
- Ⓒ Purchasing
- Ⓒ Secretary
- Ⓒ Payroll
- Ⓒ Budgeting
- Ⓒ Monitoring
- Ⓒ Management Information System (MIS)

Overview of Principal Criteria

! Indirect Costs:

Indirect or overhead costs are normally charged to administration, except when charged to a cost pool and allocated to a cost objective/category directly benefitted.

(20 CFR 645.235)

! Information Technology Costs:

The cost of information technology - computer hardware and software - needed for tracking and monitoring shall not be charged to administration. (20 CFR 645.235)

Only the costs for information technology that is “year 2000 compliant” shall be allowable. (20 CFR 645.235)

Second Round Postaward Survey Fieldwork Information

| GRANTEE | LOCATION | PERFORMANCE PERIOD START DATE | FIELDWORK | |
|---|----------------------------|-------------------------------|----------------|-------------|
| | | | BEGINNING DATE | ENDING DATE |
| Chicago Housing Authority | Chicago, Illinois | 1/4/99 | 3/23/99 | 4/1/99 |
| Columbus Urban League | Columbus, Ohio | 1/4/99 | 3/22/99 | 4/2/99 |
| Full Employment Council | Kansas City, Missouri | 1/4/99 | 4/12/99 | 4/30/99 |
| City of Gary, Department of Health and Human Services | Gary, Indiana | 1/4/99 | 4/19/99 | 4/30/99 |
| Community and Economic Development Association of Cook County | Chicago, Illinois | 1/4/99 | 4/19/99 | 4/30/99 |
| Wildcat Service Corporation | New York, New York | 1/4/99 | 5/12/99 | 5/26/99 |
| Action for Boston Community Development | Boston, Massachusetts | 1/4/99 | 5/10/99 | 5/21/99 |
| Bennett College | Greensboro, North Carolina | 1/15/99 | 5/17/99 | 5/28/99 |
| San Diego Workforce Partnership | San Diego, California | 1/4/99 | 5/17/99 | 6/2/99 |
| Richmond Private Industry Council | Richmond, Virginia | 1/4/99 | 4/19/99 | 4/23/99 |
| District 1199C Training and Upgrading Fund | Philadelphia, Pennsylvania | 1/4/99 | 4/12/99 | 4/23/99 |
| Alexandria Redevelopment and Housing Authority | Alexandria, Virginia | 1/4/99 | 4/12/99 | 4/23/99 |

Status of Second Round WtW Competitive Grantees

| Grantee | Grant Award | Planned Enrollments | Planned Placements in Unsubsidized Employment | Costs Incurred to Date ⁶ | Actual Enrollments to Date ⁶ | Actual Placements in Unsubsidized Employment ⁶ |
|--|---------------------|---------------------|---|-------------------------------------|---|---|
| Chicago Housing Authority | \$5,000,000 | 900 | 750 | \$7,827 | 0 | 0 |
| Columbus Urban League | \$3,149,984 | 480 | 346 | \$3,248 | 0 | 0 |
| Full Employment Council | \$4,420,558 | 805 | 508 | \$37,297 | 0 | 0 |
| City of Gary, DHHS | \$5,000,000 | 450 | 400 | \$18,739 | 0 | 0 |
| Community & Economic Development Association | \$4,999,302 | 750 | 600 | \$22,947 | 139 | 32 |
| Wildcat Service Corporation | \$2,007,017 | 400 | 300 | \$60,639 | 29 | 0 |
| Action for Boston Community Development | \$2,785,430 | 300 | 215 | \$27,707 | 1 | 0 |
| Bennett College | \$5,000,000 | 500 | 421 | \$222,086 | 46 | 46 |
| San Diego Workforce | \$5,000,000 | 1,100 | 500 | \$26,980 | 0 | 0 |
| Richmond PIC | \$4,993,775 | 700 | 535 | \$0 | 0 | 0 |
| District 1199C Training and Upgrading Funds | \$4,449,928 | 600 | 450 | \$54,838 | 39 | 0 |
| Alexandria Redevelopment and Housing Authority | \$1,090,000 | 250 | 150 | \$1,900 | 0 | 0 |
| Totals | \$47,895,994 | 7,235 | 5,175 | \$484,208 | 254 | 78 |

⁶ The cost incurred, actual enrollments, and placements in unsubsidized employment are as of the dates of our fieldwork found in Appendix 4.

Suggested Areas for Inclusion in Grantee Written Policies and Procedures

- C The work-first approach restricts the grantee from providing services (except job readiness) until the participant has engaged in employment-based activities. Also, the procedures should describe allowable activities for qualified participants.
- C Procedures for recording, tracking and reporting the 70 percent minimum/30 percent maximum expenditures to the appropriate cost categories.
- C Eligibility requirements for the 70/30 percent programs at the grantee and subgrantee levels. Procedures for determining and reviewing eligibility documentation.
- C Proper assessment of skills, prior work experience, employability and other relevant information including record keeping requirements for each participant.
- C Fully define 15 percent administrative costs limitation and definitions for administrative and indirect costs.
- C Cash management procedures for authorized drawdowns, maintaining fund balances, and reconciliations for cash and petty cash accounts.
- C Program income procedures for recording and using the income to further delivery of the program and the return of income over \$250 for interest earned on advances.
- C Documentation requirements for verifying placements and retention to ensure accurate reporting. Contracts and vouchers for job placement services must include a provision to require that at least one-half of the placement payment occur after an eligible individual has been in the workforce for six months. (Employer payroll records or wage reports are usually the best documentation to verify 6 months on the job.)
- C Procedures for developing and maintaining Individual Development Accounts. The procedures should include requesting and receiving approval from the State and/or the DHHS.
- C Identification of allowable and unallowable costs and proper cost allocation from Attachment B from OMB Circular A-122 or applicable circulars describing allowable and unallowable costs.

- C Procedures for reporting obligated and deobligated costs not recorded in the financial accounting system.

- C Procurement and small purchases guidelines and procedures need to be comprehensive. Procedures should include or specifically reference many of the more stringent requirements mandated by the Federal Government or by the State and local governments. Specifically, there should be written procedures that address items such as:
 - C Prohibition of “cost plus a percentage of cost” contracting methods.
 - C A requirement that procurement and small purchases are made on the basis of full and open competition.
 - C Cost or price analysis be performed for each procurement action.
 - C Profits be negotiated as a separate element in all contracts that allow for profit.
 - C Identification of procurements that require prior approval by DOL.
 - C Provisions prohibiting actions to break purchase quantities down into smaller components to circumvent more stringent procurement requirements.
 - C Requirements that a RFP be announced in a publication that has general circulation in the competitive area.

- C A provision that prohibits the construction or the purchase of facilities, buildings or capital improvements using WtW funds.

- C Approval, acquisition, tracking, inventories and disposition requirements for equipment and supplies. Computer software/hardware must be year 2000 compliant.

- C Procedures to ensure that physical inventories are conducted and reconciled at least every 2 years.

Suggested Areas for Inclusion in Grantee Written Policies and Procedures

- C Contractual procedures for awarding contracts to qualified subrecipients including debarment assurances and certifications provisions, Federal requirements that must be followed, Code of Federal Domestic Assistance numbers, statements of understanding and compliance, and record retention.
- C Procedures or a manual for MIS controls, storage, access, verification of reported data, and tracing reported data to source documents.
- C MIS contingency plan for disasters and security risks.
- C Monitoring procedures for the grantee and subgrantee levels to include reviewing: WtW requirements; scheduling monitoring, issuing reports, and resolving findings; TANF information to ensure it was taken within six months of eligibility determination; an assessment of skills, prior work experience and employability has been performed; work first has been implemented before services are provided; and only allowable activities have been provided.
- C Grantee and subrecipient audit and audit resolution responsibilities under A-133.

Complete Agency Response

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D.C. 20210



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MEMORANDUM FOR: JOHN J. GETEK
Assistant Inspector General
for Audit

FROM: *Ray Bramucci*
RAYMOND BRAMUCCI
Assistant Secretary for
Employment and Training

SUBJECT: Comments on Draft Audit Report
No. 05-99-020-03-386 Concerning
Second Round Welfare-to-Work
Competitive Grants Post-Award
Survey Results

Thank you for the opportunity to review the above-reference Draft Report. We continue to see evidence of the excellent working relationship between our agencies as we work to effectively implement the Welfare-to-Work (WtW) grants program.

Overall, we agree with the findings in your report. Much of the information you reported reinforces anecdotal information we have received from our Grant Officer Technical Representatives (GOTRs) on issues they have observed with their grantees.

We have only one specific comment on the text of the report. On page 2, a reference is made to potential Fair Labor Standards Act violations. This issue was not discussed in reference to any of the Round 2 grants that were reviewed. We continue to work with a number of grants where this issue has surfaced, but if it needs to be addressed in the Round 2 competitive grantees that you reviewed, a more specific reference would be helpful.

I would like to update you on some of the technical assistance efforts that we have undertaken, partly in response to issues that have been identified through your post-award surveys of WtW grants.

- 1) In response to issues raised both in your report and requests from the field, we plan to issue policy guidance on a number of new fiscal and eligibility issues that have emerged over the course of program implementation.
- 2) In addition, we plan to issue policy guidance to our WtW competitive grantees reiterating policies that are already in place.
- 3) In those instances where your report indicates a need for specific follow-up, we will instruct GOTRs to ensure that grantees are implementing corrective actions where appropriate.
- 4) In those grants that included an inappropriate evaluation component, we will follow-up to ensure that these costs are removed from the relevant grant documents. In addition, we will ensure that unallowable evaluation activities are not included in Round 3 grant awards.
- 5) We are in the final planning stages for WNW Financial Management training in four locations around the country (Washington, D.C., Atlanta, GA, Dallas, TX, and Los Angeles, CA). These sessions will be offered in October and November, and a final Session will be offered to the Round Three competitive grantees at their orientation session in January. Wherever possible, we are incorporating findings from your reports into the training curriculum.

Thank you again for the opportunity to comment on your report.