

**U.S. DEPARTMENT OF LABOR  
Office of Inspector General**

**Audit of  
Center for Employment Training**

**Migrant and Seasonal Farmworker Program  
(Grant Number C-5439-5-00-81-55)**

**Welfare-to-Work Program  
(Grant Number Y-6802-8-00-81-60)**

**Replication Project  
(Grant Number J-3912-2-00-81-75)**

**U.S. Department of Labor  
Office of Inspector General  
Report No. 09-00-006-03-365  
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## **ACRONYMS**

<b>CET</b>	<b>Center for Employment Training</b>
<b>CFR</b>	<b>Code of Federal Regulations</b>
<b>DOL</b>	<b>Department of Labor</b>
<b>ETA</b>	<b>Employment and Training Administration</b>
<b>FY</b>	<b>Fiscal Year</b>
<b>JTPA</b>	<b>Job Training Partnership Act</b>
<b>MSFW</b>	<b>Migrant and Seasonal Farmworker</b>
<b>OIG</b>	<b>Office of Inspector General</b>
<b>OMB</b>	<b>Office of Management and Budget</b>
<b>PY</b>	<b>Program Year</b>
<b>TANF</b>	<b>Temporary Assistance for Needy Families</b>
<b>WtW</b>	<b>Welfare-to-Work</b>

## EXECUTIVE SUMMARY

The U.S. Department of Labor (DOL), Office of Inspector General (OIG), audited the Center for Employment Training (CET). The scope of the audit covered the CET's administration of the following three Employment and Training Administration (ETA) grants in effect during Program Year (PY) 1998:

- ! Grant Number Y-6802-8-00-81-60: Welfare-to-Work (WtW) Program;
- ! Grant Number J-3912-2-00-81-75: Replication Project; and
- ! Grant Number C-5439-5-00-81-55: Migrant and Seasonal Farmworker (MSFW) Program.

The audit included the CET's costs as reported to ETA on the applicable MSFW and WtW *Financial Status Reports* (Exhibits A and C) and the Replication Project's *Grantee's Detailed Statement of Costs* (Exhibit E). When we identified problems for PY 1998, we expanded our examination of those problems areas to earlier program years.

Overall, we concluded that the CET is meeting the program objectives of the grants audited. For the MSFW and WtW grants that directly served participants, the CET met the grant objectives regarding the entered employment rate and the average hourly wage at termination (Exhibits B and D). The CET's participant files and the information included in its participant data systems generally supported program outcome statistics reported to ETA. Generally, the CET made proper participant eligibility determinations in accordance with Federal regulations and the CET policies, although documentation of program eligibility needed improvement.

However, we concluded that the financial systems used to report costs to ETA need significant improvements to accurately reflect allowable costs in accordance with grant provisions, Federal regulations and OMB Circular A-122. CET's internal controls and financial reporting procedures were not adequate to ensure grant costs reported were accurate and allowable under governing regulations. As a result, the CET's *Financial Status Reports* for the MSFW program and the *Grantee's Detailed Statement of Costs* for the Replication project did not accurately reflect allowable costs. We are questioning costs totaling \$5,797,229 of which \$1,578,314 is related to PY 1998. The table below shows the \$1,578,314 PY 1998 questioned costs by grant.

ETA Programs Administered by CET	PY 1998	
	Reported Expenses	Questioned Costs
MSFW Program	\$10,776,893	\$ 1,459,046
WtW Program	\$ 2,029,452	\$ 0
Replication Project	\$ 598,926	\$ 119,268
<b>Total</b>	<b>\$13,405,271</b>	<b>\$ 1,578,314</b>

Moreover, DOL grant costs totaling \$3,728,512 were misclassified on the Replication Project Grantee's Statement of Detailed Costs.

The preceding table and the exhibits to this report reflect grant costs the CET reported to ETA. The CET uses a method to draw down cash from ETA which differs from its expense reporting and the amount of cash drawn from ETA generally does not match reported expenses. For PY 1998, the CET reported expenses of \$10,776,893 for the MSFW program but only drew \$10,182,354. For the WtW program, the CET reported expenses of \$2,029,452 but drew down \$2,303,146. Since ETA uses the *Financial Status Reports* to monitor grant expenses, including compliance with budget restrictions, the reported expenses from the *Financial Status Reports* are used in this report.

The following summarizes our audit findings:

**! Administration Costs are Overstated \$3,854,640**

The CET overstated administration costs by a total of \$3,854,640 on the PY 1996, PY 1997, and PY 1998 *Financial Status Reports* for the MSFW program. The CET charged administration costs already included in their published tuition catalog rates and inaccurately reported other administration costs. As such, the related *Financial Status Reports* are materially misstated.

**! The MSFW Program Did Not Credit the MSFW Program With Pell Grant Proceeds**

According to a U.S. Department of Education (DOE) program review report, the MSFW program was overcharged \$1,437,035 in PYs 1993, 1994, and 1995. The DOE concluded that this occurred because the CET did not credit the MSFW program with DOE Pell grant funds. Although the CET disagreed with the DOE conclusion, the Federal Government may have paid twice for training 916 students during those three years.

! **The Replication Project was Overcharged \$383,894 and \$3,728,512 was Misclassified**

The CET overcharged the Replication Project \$383,894 in PYs 1997 and 1998. More specifically, CET (1) improperly charged consulting fees and Pell grant related costs, and (2) charged unsupported costs for professional service fees. Moreover, the CET misclassified \$3,728,512 on the project's final *Grantee's Detailed Statement of Costs*. Therefore, the Replication Project's *Grantee's Detailed Statement of Costs* is not fairly presented.

! **The PY 1998 MSFW Training Category was Overstated \$291,708**

The PY 1998 MSFW Training category was overstated. More specifically, the CET (1) did not use correct tuition rates for certain students, and (2) billed tuition for students trained in a prior funding period. DOL was overcharged \$291,708. This contributed to a material misstatement in the PY 1998 *Financial Status Report*.

! **Other Ineligible Costs of \$187,621 were Charged to the MSFW Program**

The MSFW program was charged \$187,621 in PY 1998 for ineligible costs charged to two different *Financial Status Report* cost categories. Specifically, the CET (1) allocated ineligible costs to the Supportive Services category, and (2) charged unsupported costs to the Training category. These overcharges contributed to a material misstatement of the *Financial Status Report*.

! **Participant Files Did Not Include Sufficient Documentation to Substantiate Eligibility**

Participant files for both the MSFW and the WtW programs did not include sufficient documentation to substantiate participant eligibility. The CET's procedures for monitoring applicants' eligibility need improvement. As a result, there were a material number of MSFW participants whose eligibility could not be verified. The following table shows the results of our audit testing:

<b>Program</b>	<b>Total Participants</b>	<b>Participants Sampled</b>	<b>Participants Eligibility Not Verifiable</b>
<b>MSFW</b>	<b>4,294</b>	<b>281</b>	<b>16</b>
<b>WtW</b>	<b>482</b>	<b>88</b>	<b>21</b>

**! The CET Did Not Submit Indirect Cost Proposals Timely**

The CET did not submit indirect cost proposals timely for PY 1997 and PY 1998. This occurred primarily because of major organizational changes occurring in the CET Accounting Department. As a result, none of the Federal funding sources has assurance that the indirect costs they were paying were reasonable and eligible.

To correct these deficiencies, we are recommending the Assistant Secretary for Employment and Training require the CET to improve internal controls and financial reporting procedures for the MSFW program. In summary, we are recommending that the Assistant Secretary for Employment and Training direct the CET to:

- ! Correct the misstated administration costs of \$3,854,640 reported on the *Financial Status Reports* for the MSFW program and eliminate additional separate administration costs related to tuition in future *Financial Status Reports*.**
- ! Monitor the legal case between the DOE and the CET and, if appropriate, obtain \$1,079,366 in program credits for Pell grants.**
- ! Credit \$383,894 to the Replication Project for professional services unrelated to the grant and unsupported costs and require the CET to determine actual costs; revise the *Grantee's Detailed Statement of Costs* and apply budget restrictions; and improve internal controls.**
- ! Credit the MSFW program \$291,708 for inappropriate tuition charges and require the CET to charge the appropriate tuition in the applicable funding year.**
- ! Reduce MSFW program costs by \$187,621 for improperly allocated supportive service costs and unsupported grant costs.**
- ! Improve documentation of MSFW and WtW eligibility in participant files.**
- ! Submit indirect cost proposals timely.**

For specific recommendations on each finding, see the Findings and Recommendations section of this report.

**The CET Response**

The CET responded to our draft report with written comments dated September 15, 2000.

Regarding Finding 1, the CET agreed that administration costs for the MSFW program had been misreported but stated that, due to the way the CET billed costs, actual reimbursement

**to CET was not affected. CET also provided information related to the WtW program which showed that the WtW program administration costs were accurately reported.**

**The CET disagreed with Finding 2. The CET stated DOE misunderstood the CET procedures and that no Pell grant credits were owed to either DOE or DOL.**

**The CET agreed that \$119,268 questioned in Finding 3 should not have been charged to the Replication project. The CET did not agree or disagree with the remaining \$264,626 but stated that disallowance would not affect reimbursement to CET because the CET had overspent the grant.**

**Regarding Finding 4, the CET agreed that \$228,519 for increased tuition should not have been charged to the MSFW program. However, the CET did not agree that tuition costs of \$63,189 for prior periods were inappropriate.**

**The CET generally agreed with Finding 5 that some ineligible costs were charged for supportive services but stated that the sample examined was too small. The CET disagreed as to the extent this affected grant costs.**

**The CET disagreed with Finding 6 and stated that every WtW participant file contained either a CET WtW referral form or a referral letter from a social service agency indicating that the WtW participant qualified for the CET national training program.**

**The CET agreed with Finding 7 and has submitted the indirect cost proposals for approval.**



## INTRODUCTION

### Background

Since the 1960s, the United States has been heavily committed to improving the employability of American workers by developing and funding job training programs in various forms. Current job training programs operate under the Job Training Partnership Act (JTPA), the Balanced Budget Act of 1997, and the Workforce Investment Act. Programs funded by these laws provide job training and other services that increase employment and earnings, increase educational and occupational skills, and decrease welfare dependency. The programs improve the quality of the workforce and enhance the productivity and competitiveness of the nation.

The CET is a private, non-profit organization based in San Jose, California. Since 1967 the CET has been operating a nationwide job training program funded by job training grants from DOL, several State and local governments, and private sources. For DOL, the CET administers the MSFW program, the WtW program, and a special Replication Project to develop the CET training model at other locations. The CET also participates in the Pell grant program through the DOE and in the Food Stamp program through the Department of Agriculture. Direct Federal dollars account for more than 50 percent of the CET's annual revenue, with the balance coming from public and private vocational rehabilitation agencies, foundations, and individuals.

The CET 's revenues for the period July 1, 1998, through June 30, 1999, were \$41.2 million. The CET's staff exceeds 450 and it maintains 26 training locations nationwide. The CET is accredited by the Western Association of Schools and Colleges.

In PY 1998 (July 1, 1998, to June 30, 1999), DOL awarded the CET \$10,182,354 under Grant Number C-5439-5-00-81-55 for the MSFW program and \$4,003,294 under Grant Number Y-6802-8-00-81-60 for the WtW program. In addition, during PY 1998, the Replication Project was modified twice, adding \$1,000,000 to Agreement Number J-3912-2-00-81-75, bringing the total project funding to \$7,800,000.

### Principal Criteria

The principle criteria we used in our audit included:

- ! Job Training Partnership Act of 1982, Public Law 97-300, as amended.
- ! Balanced Budget Act of 1997.
- ! 20 CFR Part 633: Migrant and Seasonal Farmworker Programs.

- ! 20 CFR Part 645: Welfare-to-Work Grants, Interim Rule.
- ! 29 CFR Part 95: Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, and with Commercial Organizations, Foreign Governments, Organizations Under the Jurisdiction of Foreign Governments, and International Organizations.
- ! 29 CFR Part 96: Audit Requirements for Grants, Contracts and Other Agreements.
- ! OMB Circular A-110: Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations.
- ! OMB Circular A-122: Cost Principles for Non-Profit Organizations.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The Office of Inspector General, Office of Audit, performed audits of the CET for DOL grants during the period July 1, 1998, to June 30, 1999. The grants covered are:

- ! Grant Number C-5439-5-00-81-55 (MSFW Program);
- ! Grant Number Y-6802-8-00-81-60 (WtW Program); and
- ! Cooperative Agreement Number J-3912-2-00-81-75 (Replication Project).

Our audits covered the costs reported on the related *Financial Status Reports* (Exhibits A and C) and the *Grantee's Statement of Detailed Costs* (Exhibit E). We expanded the scope of our audit to cover earlier years in areas where we noted material problems occurring in PY 1998. That work was limited to quantifying the dollar impact of identified problems. We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States.

### **Financial Audit**

The primary purpose of our financial audit was to determine whether the charges the CET reported were reasonable, allowable, and allocable in accordance with its grants, applicable cost principles, and Federal regulations.

In planning our audit, we performed a quality control review of the independent auditor's workpapers supporting the Fiscal Year 1998 OMB Circular A-133 audit of the CET. That review was performed to avoid duplication and build upon the work performed by the independent auditor and to obtain an understanding of the internal controls used by the CET to safeguard and manage assets and to report costs to DOL.

Our audit covered grant expenditures reported on the CET's *Financial Status Reports* and the *Grantee's Detailed Statement of Costs*. The amounts reported on these statements do not reflect the amount of cash actually paid to the CET.

### **Program Results Audit**

The primary purpose of our program results audit was to determine whether the CET accurately reported program outcome statistics regarding the number of participants served for both the MSFW and WtW programs in the CET's program reports to the ETA.

To accomplish this we examined two statistically valid samples totaling 369 participants for eligibility and accuracy of outcome reporting.

## **Entrance/Exit Conferences**

**We held our entrance conference with the CET's Executive Director and senior staff on February 18, 2000, and started field work on March 13, 2000. We completed fieldwork and held an exit conference with the CET on August 9, 2000.**

Mr. Raymond L. Bramucci  
Assistant Secretary  
for Employment and Training  
Employment and Training Administration  
U.S. Department of Labor  
200 Constitution Avenue, N.W.  
Washington, D.C. 20210

**ASSISTANT INSPECTOR GENERAL'S REPORT ON THE  
FINANCIAL STATUS REPORTS AND  
GRANTEE'S DETAILED STATEMENT OF COSTS**

We have audited the *Financial Status Reports*, (Exhibits A and C), prepared by the CET for the period July 1, 1998, through June 30, 1999, under DOL Grant Numbers C-5439-5-00-81-55 (MSFW Program) and Y-6802-8-00-81-60 (WtW Program). We also audited the Grantee's Detailed Statement of Costs (Exhibit E) prepared by the CET for the period July 1, 1998, through June 30, 1999, for DOL Agreement Number J-3912-2-00-81-75 (Replication Project). The grant agreements require the *Financial Status Reports* and the *Grantee's Detailed Statement of Costs* to be prepared in accordance with OMB Circular A-122 and ETA regulations. These requirements are a comprehensive basis of accounting other than generally accepted accounting principles. The amounts reported on the *Financial Status Reports* and the Grantee's Detailed Statement of Costs are the responsibility of the CET's management. Our responsibility is to express an opinion on the Financial Status Reports and the Grantee's Detailed Statement of Costs based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the costs claimed in the *Financial Status Reports* and the Grantee's Detailed Statement of Costs are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the costs claimed. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the costs reported. We believe our audits provide a reasonable basis for our opinion.

As discussed in the Findings and Recommendations section of this report, the CET duplicated grant costs and included inappropriate costs in the MSFW *Financial Status Report* for PY 1998. As a result, DOL grant costs on the *Financial Status Report* may be misstated by as much as \$1,578,314 for PY 1998. In addition, we are questioning \$4,218,915 for other program years due to noncompliance with ETA directives. Finally, DOL grant costs totaling \$3,728,512 have been misclassified on the *Grantee's Detailed Statement of Costs*.

ETA will make a final determination on the audit recommendations regarding allowability of

cost and improving internal controls, in accordance with Department of Labor Manual Series 8-500. This directive requires resolution of audit recommendations within 180 days of this report.

### **Opinion on Financial Statements**

In our opinion, because of the effects of misstating and misclassifying DOL program costs as discussed in the preceding paragraphs, the Financial Status Report and the Grantee's Detailed Statement of Costs do not present fairly the financial results of DOL Grant Numbers C-5439-5-00-81-55 (MSFW Program) or Agreement Number J-3912-2-00-81-75 (Replication Project) for the period July 1, 1998, through June 30, 1999, in accordance with the provisions of the grant agreements, ETA regulations, and OMB Circular A-122.

However, in our opinion, the Financial Status Report does present fairly the financial results of DOL Grant Number Y-6802-8-00-81-60 (WtW Program) for the period July 1, 1998, through June 30, 1999, in accordance with the provisions of the grant agreement, ETA regulations, and OMB Circular A-122.

### **Report on Internal Controls**

In planning and performing our audits of the Financial Status Reports for PY 1998 and the Grantee's Detailed Statement of Costs for PY 1998 submitted by the CET, we considered the CET's internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the costs reported and not to provide reasonable assurances on the internal controls over financial reporting.

We obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk for the CET.

We noted certain matters involving internal controls and their operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the CET's ability to record, process, summarize and report financial data in a manner that is consistent with the assertions of management in the *Financial Status Reports* and the *Grantee's Detailed Statement of Costs*. The findings discussed in the Findings and Recommendations section of this report are considered reportable conditions.

We also noted certain matters that we consider to be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial

statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Findings 1, 2, 3, and 4 in the Findings and Recommendations section of this report are considered material weaknesses.

Our consideration of the internal controls would not necessarily disclose all matters in internal controls that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above.

#### **Report on Compliance with Laws and Regulations**

Compliance with laws and regulations applicable to these grants, as well as provisions of the grant agreements, is the responsibility of the CET management. As part of obtaining reasonable assurance about whether the costs claimed are free of material misstatements, we performed tests of the CET's compliance with certain provisions of laws, regulations, and contracts/grants, noncompliance with which could have a direct and material effect on the *Financial Status Reports* or the *Grantee's Detailed Statement of Costs*. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance. These are described in the Findings and Recommendations section of this report and are required to be reported by *Government Auditing Standards*. The ultimate resolution of these findings cannot be presently determined. Accordingly, no provision for any liability that may result has been recommended for recognition on the *Financial Status Reports* (Exhibits A and C) or the *Grantee's Detailed Statement of Costs* (Exhibit E). ETA will resolve the non-compliance issues in accordance with Department of Labor Manual Series 8-500, which requires resolution within 180 days of this report.

We considered these instances of noncompliance in forming our opinion on whether the CET's *Financial Status Reports* and the *Grantee's Detailed Statement of Costs* are presented fairly in all material respects.

**This report is intended solely for the information and use of the CET and ETA and is not intended to be, and should not be, used by anyone other than these specified parties.**

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**John J. Getek**  
**Assistant Inspector General**  
**for Audit**

**August 9, 2000**



## FINDINGS AND RECOMMENDATIONS

Overall, we concluded that the CET met the objectives of the MSFW, WtW, and Replication grants covered by this audit. For both the MSFW and WtW programs, the CET met its performance goals for entered employment rate and average hourly wage at termination (Exhibits B and D). The CET accurately reported program statistics in program reports regarding participants served and outcomes achieved. Generally, the CET made appropriate participant eligibility determinations in accordance with Federal regulations and its own policies, although documentation of eligibility needed improvement. No final program report was available for the Replication Project; therefore, we did not evaluate the program results of that project.

We concluded that the CET financial systems need significant improvements to provide accurate financial reports of eligible costs. The following findings discuss the specific weaknesses we found and the associated questioned costs.

### 1. Administration Costs of \$3,854,640 are Misstated

The CET administration costs totaling \$3,854,640 on the PY 1996, PY 1997, and PY 1998 MSFW program *Financial Status Reports* were misstated. The CET reported administration costs already included in their published tuition catalog rates and inaccurately reported other administration costs. As such, the related *Financial Status Reports* are materially misstated.

#### Administration Costs

Besides funding direct training costs, the MSFW program recognizes that there is a cost to administer the program. Administration costs consist of all direct and indirect costs associated with the management of the program, such as:

- salaries and fringe benefits of individuals in executive, fiscal, personnel, maintenance, communications, and similar type functions;
- salaries and fringe benefits of individuals in direct program administrative positions, i.e., program analysts, labor market analysts, and similar type functions; and
- costs of clerical personnel, materials and equipment, space, utilities, and travel associated with the above functions.

The MSFW program establishes an administration cost maximum of 20 percent of the grant amount.

The CET generally contracts with funding agencies on a tuition basis. In this approach, the CET publishes a per student price that includes all the costs of training a student (including

administration costs) for a particular skill. The CET uses this tuition price for MSFW, WtW, and all other the CET students, including the general public.

The CET MSFW grant agreement states: “. . . CET contracts with all funding sources . . . [are] . . . based on its published catalog tuition . . .” The grant agreement does not mention separately charging administration (or any other type) of costs.

#### CET Did Not Follow Grant Provisions

However, the CET did not follow the grant provisions in reporting grant costs and reported administration costs related to training separate from, and, in addition to, tuition. For the PY 1998 MSFW *Financial Status Report*, the CET calculated training cost (\$9,797,170 total) and entered 10 percent of that amount (\$979,717) into the Administration category on the *Financial Status Report*. Neither the grant agreement nor the MSFW program regulations allow this process. Also, the rate is basically unsupported since it does not represent an approved indirect cost rate or other approved rate application.

In PY 1996 and 1997, the CET reported MSFW administration charges of \$1.5 million and \$1.3 million, respectively. The PY 1996 and 1997 MSFW *Financial Status Reports* were prepared by an outside firm and current CET personnel could not explain how the amounts reported were calculated. They did a recalculation using an indirect cost rate for administration cost and still could not support the amount reported. However, using the indirect cost rate as administration cost may not be appropriate since CET's indirect cost rate is based on costs not on tuition. Therefore, we are questioning these amounts also. Total reported costs for administration costs for the 3 years were \$3,854,640.

These reported amounts are improper. The grant does not provide for additional costs beyond tuition. Tuition is a fixed price. This is how the CET charges other funding agencies and the general public. Since tuition is a unit price, and should cover all the costs of training (including administration costs) the CET has essentially reported the MSFW administration costs twice. We have accepted some minor charges for the MSFW program that the CET would not normally incur for a non-MSFW student, such as stipends and supportive services. However, administration cost is a major cost that is applicable to all students regardless of funding source. The CET does not charge other agencies or the general public additional costs over tuition. It should not include the additional costs for the MSFW program either.

This position is further supported by the CET's *Cumulative Quarterly Financial Status Report* which contains the following note:

The CET's tuition based services are all inclusive (direct & indirect expenses) with a built-in administrative cost @ 12.89%.

The CET management and fiscal personnel stated that there was a misunderstanding by previous employees preparing the *Financial Status Reports* and that adding administration costs to tuition was in error.

As a result of reporting administration costs in addition to tuition costs, the CET over reported the PY 1998 MSFW program costs by \$979,717. We reviewed the previous 2 years *Financial Status Reports* to determine whether the problem occurred in those years also and found that the CET had misstated to DOL a total of \$2,874,923 for those years. Therefore, we are questioning a total of \$3,854,640 reported for the MSFW program for the last 3 years.

### Recommendations

We recommend that the Assistant Secretary for Employment and Training require the CET to:

- a. Correct the misstated administration costs of \$3,854,640 reported on the *Financial Status Reports* for the MSFW program by (1) developing a consistent method of determining administration costs and (2) obtaining ETA approval of this method.
- b. Determine whether this correction affects cash draw downs and refund any excess.
- c. Eliminate additional separate administration costs related to tuition in future *Financial Status Reports*.

### The CET Response

In their response, CET stated:

The FSR form is designed for cost reimbursement contracts, not for tuition based contracts where some costs (tuition) include administration and other costs (stipends and supportive services) do not include administration.

When CET first began tuition based contracting it tried to submit FSR's with training administration included in the training line item. We were directed (verbally) to separate out the administrative costs associated with training and to report them on the Administration line of the report. We did so consistently until the OIG audit period of PY 1998. At the time of submittal CET was just taking back in-house the fiscal function and an FSR was completed showing zero administration because the administrative costs had not been pulled out of the Training line item. By direction of the Contracts Department, Fiscal was instructed to add 10% for administration because "there had to be some administrative costs."

**The result for that year alone was that total costs were overstated. However, this was an error in reporting only. CET did not draw down the extra 10%, since that amount was not reflected in our books which form the basis for drawdowns. This overstatement of costs did not occur in PY 1996 and PY 1997. In those years CET reduced tuition reported in order to move administrative costs to the administration line in the report.**

The CET also provided explanations and documentation which reduced the cost being questioned.

#### **OIG Evaluation of the CET Response**

**While the CET acknowledges the misreporting of administration costs for PY 1998, the CET states that these costs were eliminated from training costs for PY 1996 and 1997. However, the documentation provided does not support the amounts reported on the *Financial Status Reports*. Also, as noted in the finding, the CET applied their indirect cost rate to tuition costs to determine administration costs. This is not correct since the indirect costs are based on actual costs, not tuition. The CET still needs to work with ETA to develop an acceptable method to report administration costs.**

**Therefore, these recommendations are open and unresolved.**

## **2. The CET Did Not Credit the MSFW Program with Pell Grant Proceeds**

According to a DOE program review report, the MSFW program was overcharged \$1,437,035 in PYs 1993, 1994, and 1995. The DOE concluded that this occurred because the CET did not credit the MSFW program with DOE Pell grant funds. Although the CET disagreed with the DOE conclusion, the Federal Government may have paid twice for training 916 students during those three years.

### **Pell Grants**

The CET's MSFW program requires the CET to credit the MSFW program with Pell grants received by MSFW program students. Pell grants are Federal funds provided by the DOE to eligible students to offset the cost of education and job training. Most of the CET students are eligible for Pell grants and the CET requires them to apply for Pell grants so that MSFW program funds can be spread among more eligible farmworkers. If a student receives a Pell grant, MSFW program funds only have to cover the tuition costs which exceed the Pell grant amount.

### **DOE Review**

The DOE reviewed the CET's administration of the Pell grant financial aid program in March 1996, and concluded that the CET was not applying Pell grant funds to offset farmworker tuition. DOE issued a final program review determination on April 29, 1998, concluding that the CET was not complying with the Pell grant program requirements. The determination letter states:

. . . CET consistently billed DOL for 100% of the tuition, drew funds from DOL for such billing, then subsequently drew Federal Pell funds. Frequently, CET did not then offset its Federal Pell receipts against future DOL Farmworker billing and draws.

The DOE concluded that the CET owes the Federal government, either DOE or DOL, \$1.4 million.

The DOE determination has been challenged by the CET. The CET's position is that the "credits" simply do not exist and that the CET does not owe the DOE or the MSFW program any funds relative to this issue. The CET insists that for the 3 years in question, the CET could have charged the MSFW program about \$20 million, but actually only charged \$18 million. According to the CET, since it charged about \$2 million less than it could have, there is no credit due. The issue has been appealed by the CET to a DOE Administrative Law Judge.

## **DOL OIG's Position**

**We reviewed documentation concerning the case provided by DOE, including the CET's responses. We believe DOE has a supportable position although we computed the amount that the CET may owe DOL to be \$1,079,366. Therefore, we are questioning the \$1,079,366.**

**However, since the matter is scheduled to be decided by an Administrative Law Judge, we do not believe that ETA should recover any funds from the CET at this time. ETA should actively monitor the case in cooperation with DOE and obtain MSFW program credits if the Administrative Law Judge finds in DOE's favor.**

## **Recommendation**

**We recommend that the Assistant Secretary for Employment and Training monitor the DOE case involving the CET, and if the Administrative Law Judge rules against the CET, require the CET to repay \$1,079,366 to the MSFW program.**

## **The CET Response**

**The CET stated that all MSFW and Pell grant funds had been applied to student tuition charges and that no credits of any kind were owed. The CET took exception to reliance on DOE staff work and also believes the finding should be removed from the final report, stating that:**

**. . . the draft audit finding incorrectly seeks to rely wholesale, and via incorporation, upon a DOE program review that explicitly rejects any contention that monies are owed to the MSFW programs. No independent basis exists or is cited to support any contention that CET owes monies to the MSFW programs. Therefore, we believe that the draft finding should be removed from any final report.**

## **OIG Evaluation of the CET Response**

**We did not rely entirely on the DOE review. We reviewed the program report, met with DOE officials involved with the review, and obtained and analyzed supporting documentation for the DOE conclusions. We also reviewed and analyzed the CET's responses and documentation provided in support of its position. Based on our reviews, we concluded the DOE conclusions were reasonable.**

**However, as the finding states, the final decision is pending before an administrative law judge. Until the final decision is made this recommendation is open and unresolved.**

### **3. The Replication Project was Overcharged \$383,894 and \$3,728,512 was Misclassified**

The CET overcharged the Replication Project in PYs 1997 and 1998. Contrary to OMB Circular A-122 requirements, the CET charged professional fees not directly related to the grant. The CET also misclassified \$3,728,512 on the grant's final *Grantee's Detailed Statement of Costs*. As a result, the CET overcharged DOL \$383,894 and the Replication Project *Grantee's Detailed Statement of Costs* is not fairly presented.

#### **Replication Project**

The Replication Project is a cost-reimbursable project governed by a formal agreement between the CET and DOL. The project recognized the CET's successful job training program model and had the objective of developing 10 CET model training programs in locations throughout the country. The agreement provided that DOL would reimburse the CET for all eligible costs incurred in replicating the CET program model at the selected locations.

In determining eligible costs, the agreement and OMB Circular A-122 govern the Replication Project. Section A.2.a. of OMB Circular A-122 states that to be allowable, costs must be reasonable for the performance of the award and the cost must be allocable to a particular grant. In defining allocable costs, the Circular states that a cost is allocable to a particular cost objective only in accordance with the benefits received. In addition, Section A.2.g. requires costs to be adequately documented.

#### **Items Improperly Charged**

In PY 1997 and 1998 the CET charged the Replication Project Professional Services category \$383,894. The charges were for fees paid to several private companies for services rendered to the CET. We reviewed the contracts with these firms, discussed them with CET officials, and contacted several contractors. We found that all the firms were under contract to CET for purposes unrelated to the Replication Project and there were no new contracts or amendments issued to specify work directly related to the Replication Project. We could not identify any clear relationship between the services provided and the Replication project. In total, the CET overcharged DOL \$383,894 contributing to a material misstatement of the *Grantee's Detailed Statement of Costs*. We question the costs of \$383,894.

- ! In PY 1998, the CET charged the Replication Project \$119,268 for services of several consulting firms. We question the \$119,268 charged to the Replication Project for these services. CET officials acknowledged these charges were made in error.**
  
- ! In PY 1997, the CET charged the Replication Project \$104,802 for services of a management firm that DOE required CET to hire to verify Pell grant applications for CET students. CET officials stated the company also assisted in developing a new CET**

management information system (MIS). We question the \$104,082 for this contract.

! In PY 1997, the CET charged \$159,824 for the services of two accounting firms. According to the CET, both contractors provided accounting services for contracts awarded to the CET by the City of Chicago. Although Chicago was a replication site, we do not see any relationship between these services and the Replication Project. CET officials also stated that the companies assisted in developing a new MIS which was part of the CET replication model. We question the \$159,824 for these services.

### Cost Categories Misstated

The closeout *Grantee's Detailed Statement of Costs* did not correctly categorize reported costs. The CET could not determine how much was actually spent in each category so it put all of the uncategorized expenses in the "Other Direct Cost" category. This caused the CET to materially misstate the final *Grantee's Detailed Statement of Costs*.

The Replication Project started in 1992 and ended in March 1999. In June 2000, the CET prepared the final *Grantee's Detailed Statement of Costs* and submitted it to DOL.

According to the grant agreement, the CET needed to obtain advance approval for any budget variances that exceeded 20 percent of the budget for that item, except personnel and related costs. For these two types of costs, the CET needed advance approval for any variances from the budget. To determine compliance with these grant provisions, CET needed to report costs by category.

The CET's *Grantee's Detailed Statement of Costs*, however, does not accurately categorize reported costs. Comparisons between budget and actual costs cannot be made. This is because the CET's accounting records are not available to accurately separate costs by budget category.

According to the CET, its accounting records contain only the present year's and one prior year's information. Detailed costs for periods before this are not available. Therefore, to prepare the final report for the Replication Project, the CET used their single audit reports for those periods. The audit reports, however, did not break out the costs in sufficient detail to allow completion of the *Grantee's Detailed Statement of Costs* by approved line item.

Therefore, the CET categorized the last 3 years data from its accounting system according to the grant budget line items, but lumped all prior period costs obtained from the single audit reports into "Other Direct Costs." The following table shows the effect this has on the *Grantee's Detailed Statement of Costs*.

Category	Budget Amount	Reported Amount
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Other Direct Costs	\$1,059,556	\$3,728,512
Personnel	\$4,786,654	\$2,643,810

The CET officials told us most of the amounts reported in the "Other Direct Cost" category were actually Personnel costs.

As a result, the CET materially misstated the *Grantee's Detailed Statement of Costs* and neither the CET nor ETA can determine exactly how the Replication Project funds were spent or whether the CET complied with the budget restrictions contained in its grant agreement.

### Conclusion

The CET improperly charged items to the Replication Project and misstated the cost categories on the *Grantee's Detailed Statement of Costs*. This resulted in overcharges of \$383,894 and a misclassification of \$3,728,512.

### Recommendations

We recommend that the Assistant Secretary for Employment and Training instruct the CET to:

- a. Credit the Replication Project \$383,894 for charges unrelated to the Replication Project.
- b. Determine actual costs by category and revise the *Grantee's Detailed Statement of Costs* accordingly.
- c. Apply budget restrictions to cost categories per the revised statement and credit DOL with any unapproved budget overruns.
- d. Improve internal controls to ensure only applicable charges are made to DOL grants and ensure that adequate documentation is maintained for all charges.

### The CET Response

The CET partially agreed with OIG's questioned costs, stating:

CET has acknowledged in a June 20, 2000 memo to the auditor that the \$119,268 professional fee was miscoded and does not belong in this grant. This did not result in an overcharge to the Replication grant, since the total grant expenditures exceeded the total grant amount.

The CET did not agree or disagree with the other costs questioned. The CET stated:

**The \$383,894, even if disallowed, would have been covered by CET, with unrestricted funds.**

## **OIG Evaluation of the CET Response**

**The CET's partial agreement with the finding is accepted, but the remaining \$264,626 in questioned costs related to non Replication Project activities was not addressed except to state that disallowance would not affect reimbursement to the CET.**

**We do not agree that disallowance would not affect reimbursement. In accordance with our recommendations, the CET needs to eliminate the \$383,894 from grant costs and apply the budget limitations to cost categories to determine eligible costs. Until both of these actions are accomplished proper reimbursement to the CET cannot be determined.**

**Accordingly, these recommendations are open and unresolved.**

#### **4. The PY 1998 MSFW Training Category is Overstated by \$291,708**

The PY 1998 MSFW Training category is overstated by \$291,708. This occurred because the CET (1) did not use correct tuition rates for certain students, and (2) billed tuition for students trained in a prior funding period. This overstated amount contributed to a material misstatement in the PY 1998 *Financial Status Report*.

##### **Tuition Charges**

Every CET training course has a published catalog tuition rate. Courses and course length are changed periodically and tuition rates are adjusted accordingly. For example, in 1995, the CET's Child Care Provider course had a tuition rate of \$6,590 and a course duration of 1,060 hours. Two years later the tuition was increased to \$6,770. Eight months later the course duration was lowered to 900 hours and the tuition was lowered to \$6,050.

The CET generally contracts with all its funding sources on a tuition basis. The CET MSFW grant agreement specifically provides that training costs are "... based on ... published catalog tuition ... ." The two published catalog tuition schedules in effect during PY 1998 had effective dates of February 2, 1998, and January 1, 1999.

The grant also requires compliance with 29 CFR Section 95. Section 95.28 applies a matching principle to MSFW grantees, stating: "...a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period ... ." Since each MSFW funding period is July 1 through June 30, MSFW recipients may charge the grant only with obligations incurred during this period.

##### **Published Tuition Rates Exceeded**

The CET charged the MSFW program with tuition that exceed the published catalog rates, contrary to the grant agreement provisions.

In July, August, and September 1998, the CET enrolled 262 students in MSFW program training courses. At the time the students enrolled, the appropriate tuition rates for each course as published in the CET's February 2, 1998, catalog were charged to the grant. In September 1998, the CET retroactively increased the tuition rates charged in the billing system (not in the catalog) for these 262 students only and charged the MSFW program for the additional tuition.

For example, in the February catalog the Child Care Provider course tuition was \$6,050 and this amount was charged for each student who entered the Child Care Provider course in July, August and September, 1998. Subsequently, the Child Care Provider tuition rate was increased to \$6,770 for the MSFW program only, and an additional \$720 per student was retroactively applied to all course students enrolled in July, August and September, 1998.

The same happened with the Truck Driver course, using tuition rates of \$5,645 and \$6,230. Overall, the MSFW program was charged an additional \$188,118 for tuition rates higher than the published catalog rates.

In October 1998, the CET enrolled another 62 MSFW program students. The higher tuition rates were applied and \$301,393 was charged to the grant; \$40,401 more than what would have been charged using the February 2, 1998 catalog rates.

Overall, the MSFW program was charged \$228,519 tuition that exceeded the CET published catalog rates and also was not charged to other CET programs.

In November 1998, the CET rolled back the tuition rates charged to the MSFW program to those in effect as of February 2, 1998. However, the CET did not reverse the \$228,519 in increased tuition that had been charged to the MSFW program.

According to the CET officials, the tuition charges for the MSFW program students had been increased due to extra transportation costs associated with the program. The CET officials stated that the tuition increases were rescinded in November 1998, when the CET's scholastic accreditation body advised that it did not permit member schools to charge different rates for students attending the same course. We could not verify that there were any unique transportation costs for the MSFW program or determine why the \$228,519 was not refunded to the grant because the individuals involved when these transactions occurred have left the CET.

We are questioning the \$228,519 because the tuition rates charged exceeded the published tuition rates which violates the grant provisions.

#### Tuition Charged to Wrong Period

The CET charged \$63,189 in tuition to PY 1998 for training classes that were completed in the prior funding year. This occurred because of the way the CET accounted for MSFW students eligible for DOE Pell grants. As a result, PY 1998 funds were used to pay for PY 1997 costs. This is not allowable.

The CET leverages MSFW program funds with DOE Pell grant funds as a way of serving more farm workers. Pell grants are monies given by the DOE for eligible students to pay for training costs they incur. A significant proportion of the MSFW program students enrolled in the CET are eligible for, and receive, Pell grants while attending the CET training.

If a MSFW program student is eligible for a Pell grant, the CET enters a credit in that student's record and charges the MSFW program the difference between the catalog tuition and the estimated Pell grant amount. When the student's Pell grant is funded, the balance in the student's account becomes zero. If, for some reason, the student does not actually get the

Pell grant, the CET removes the credit for the estimated Pell grant and charges the MSFW program for the remainder of the tuition not billed. However, this transaction is generally done a lengthy time after enrollment since the Pell grant application takes some time to process.

In June 1999, the last month of PY 1998, the CET found that credits had been given for a large number of students who did not get their anticipated Pell grants. To correct this, the CET charged the PY 1998 grant \$91,981 for estimated Pell grant credits which had not been funded by the DOE but had been credited to the MSFW program.

However, the charge included \$63,189 related to 36 students who had completed their training before PY 1998. For example, \$1,645 was billed in PY 1998 for one student who entered the CET training in July 1997 and completed training prior to the start of PY 1998.

Charges to the MSFW program are limited per 29 CFR §95.28 to allowable costs resulting from obligations incurred during the funding period; in this case, PY 1998. Therefore, the training costs for these 36 students must be charged to the funding period in which they received their training, i.e., PY 1997.

The CET officials stated that the reason these costs were charged to the PY 1998 grant was the lengthy time between requesting a Pell grant and the actual receipt of the funds from the DOE. To avoid overbilling DOL funds, the CET estimates the Pell grant a student will receive and only bills the estimated unfunded tuition. This, then causes problems if a student does not receive a Pell grant.

We do not believe that the timing problems encountered by the CET justify charging PY 1998 for PY 1997 tuition costs. We are, therefore, questioning the \$63,189.

### Conclusion

The PY 1998 MSFW *Financial Status Report* training category is overstated \$291,708 because the CET charged tuition rates higher than the published catalog rates and charged for training costs incurred in prior periods. This contributed to a material misstatement of the PY 1998 MSFW *Financial Status Report*.

### Recommendations

We recommend that the Assistant Secretary for Employment and Training require the CET to:

- a. Credit \$291,708 to the MSFW program.
- b. Revise the *Financial Status Report* to reflect the lower cost of training.

- c. **Limit training costs to published catalog tuition on all future grants.**
- d. **Match expenses to obligations incurred during a funding period on all future grants.**

#### **The CET Response**

**CET generally agreed with this finding and recommendation. However, regarding that portion of the finding relating to \$63,189 in tuition charged to PY 1998 for training provided in prior periods, the CET disagreed and stated:**

**The timing problems associated with reimbursement of Pell grants are considerable. At the time of enrollment CET reduces tuition to the DOL grant by the full tuition portion of the Pell grant for students who are deemed by CET to be eligible. As noted in a detailed letter to the OIG auditor dated June 30, 2000 when a school is on "Reimbursement Status" the award process by DOE is very slow and awards may be delayed as much as six or eight months. So, how should we report late adjustments for students who completed training in a prior year and are therefore not carryover students?**

#### **OIG Evaluation of the CET Response**

**The CET's agreement with \$228,519 of this finding is accepted. While we agree there are timing problems associated with Pell grants, ETA regulations do not allow tuition costs of one period to be charged to another period of the MSFW program. Therefore, these recommendations are open and unresolved.**

## **5. Other Ineligible Costs of \$187,621 were Charged to the MSFW Program**

The MSFW program was charged \$187,621 in PY 1998 for ineligible costs charged to two different *Financial Status Report* cost categories. These overcharges occurred because the CET allocated ineligible costs for Supportive Services, and charged unsupported costs to the Training category. As a result, the DOL was overcharged \$187,621, contributing to a material misstatement of the *Financial Status Report*.

### **Supportive Services and Services Only Categories**

In addition to providing job training, the MSFW program also provides supportive services such as clothing, temporary housing, transportation, and child care. These costs are reported in the *Financial Status Report* Supportive Services category. Moreover, the PY 1998 MSFW program provided funds for emergency assistance to farm workers who had suffered economic harm from extreme weather in California. These costs were reported in the Services Only category of the *Financial Status Report*.

The allowability of costs for these MSFW program categories are governed by 20 CFR §633.304 (c)(3) which defines supportive services, and OMB Circular A-122 *Cost Principles for Non-Profit Organizations* which defines allowability and allocability of costs.

### **Training-Related Supportive Services Costs Improperly Calculated and Allocated**

The CET charged the PY 1998 MSFW program \$158,888 for supportive services. This amount is materially incorrect because (1) it contains non-supportive service costs, and (2) it is incomplete. Thus, we were not able to determine the true Supportive Services costs.

The CET charges supportive services costs to its funding sources in two ways. Costs that can be readily identified with a particular student are charged to the supporting funding source directly. Costs that cannot be allocated to a particular student are pooled and allocated to the various funding sources according to the number of students supported by each funding source. This allocation is done separately from, and, in addition to, the CET's indirect cost allocation. For example, the costs of a health screening required for the Child Care Provider course in San Jose, California (an allowable MSFW program supportive services cost) would be allocated to the various funding sources based on the percentage of their students attending classes at the San Jose site. The MSFW program's share of that cost would be properly charged to the Training-Related Supportive Services category.

Supportive services are defined in 20 CFR §633.304(c)(3):

Costs of services which are necessary to enable an eligible individual to participate in training or subsidized employment under section 402 and to obtain subsequent unsubsidized employment.



In addition, Section A.2.a. of OMB Circular A-122 requires that to be allowable, costs must be both reasonable and allocable to the MSFW program.

However, the CET allocated costs to the Supportive Services category from a pool that included items which by definition were not allocable, neither in whole nor in part, to Supportive Services. Specifically, we judgementally selected and examined eight items from October 1998's charges and determined that six of the eight items (75 percent), totaling \$3,897, should not have been included in the Supportive Services category. The following table shows the six items:

Amount	Type of Cost
\$864	Educational testing for non-MSFW students
\$328	Verification of Pell grant applications
\$344	Vehicle Registration
\$2,187	Property Tax
\$73	Equipment Tax
\$101	Late Fee

While these charges may be supportive services for some of the CET students, they do not relate to the MSFW program and no portion may be allocated to it.

Due to the high incidence (75 percent) of ineligible items in our sample, we are questioning the entire category and recommending the CET analyze the costs and remove ineligible costs.

#### Supportive Service Costs Not Complete

The Supportive Services category is not complete. As a result, the amount of supportive services may be understated. Due to internal problems during our audit period, the CET was several months in arrears in its accounting. At the time the PY 1998 *Financial Status Report* was prepared, the CET only had 10 months of accounting data available. In order to complete the *Financial Status Report*, the CET used the 10-month figure for Supportive Services. In June 2000, we received a detailed listing of supportive service charges from the accounting system. The listing totaled \$217,000, considerably more than the amount reported on the *Financial Status Report*. The additional items had been entered into the accounting system after the *Financial Status Report* was submitted to ETA and no corrected *Financial Status Report* was sent to ETA.

However, the \$217,000 includes ineligible allocated costs as discussed above. Therefore, we cannot accept the \$217,000 as the correct amount for Supportive Services. However, we

recognize that the CET may have additional eligible costs to include in the *Financial Status Report*. The CET needs to analyze all the supportive service costs, remove ineligible costs and correct the *Financial Status Report* for total eligible costs.

**Unsupported Training Costs.**

The CET charged the PY 1998 Training category \$28,733 for which no support was provided. The CET's Training category consists of tuition, stipends, and any subcontract costs. For PY 1998, the CET's accounting system showed the following balances:

Sub-Category	Cost
Stipends	\$2,074,986
Subcontracts	\$104,530
Tuition	\$7,033,433
<b>Total Training</b>	<b>\$9,212,949</b>

This amount supported by the CET's accounting system is \$28,733 less than the \$9,241,682 reported on the *Financial Status Report*. According to the CET management, adjustments were made to the accounting system after the *Financial Status Report* was prepared which reduced the Training costs.

**Conclusion**

As a result of allocating ineligible costs to the Training-Related Supportive Services category and charging unsupported costs of \$28,733 to the Training category, we are questioning \$187,621 in ineligible costs. In addition, due to not including all costs incurred for this category, we cannot attest to the actual amount of eligible costs in these categories.

**Recommendations**

We recommend that the Assistant Secretary for Employment and Training require the CET to:

- a. Reduce grant costs by \$187,621.
- b. Determine the actual total amount of eligible Training-Related Supportive Services costs incurred in PY 1998.
- c. Revise the PY 1998 *Financial Status Report* to reflect the correct amounts chargeable to the Training and the Training-Related Supportive Services categories.

## **The CET Response**

**The CET generally agreed with this finding and recommendation, with the exception of reducing grant costs by \$187,621. The CET stated:**

**Eight supportive services costs judgmentally selected from one month is a very small sample upon which to base a 75% ineligible conclusion. During PY 1998 some Training Related Supportive Services costs were put into the Other Costs account in error and were not properly reported. Also, for reasons discussed in the audit report, CET may have understated PY 1998 supportive services costs.**

**The revised FSR for PY 1998 attached as an exhibit above properly report eligible supportive services costs and they are isolated in CET's accounting system now. The FSR also now reflects Training costs drawn from CET's audited financial records.**

**The CET's revised *Financial Status Report* showed a total supportive services cost of \$123,941.**

## **OIG Evaluation of the CET Response**

**We do not agree that our sample was too small. The fact that 75 percent of the items reviewed were questionable clearly shows the need for the CET to review the costs charged for supportive services in detail. Therefore, the \$187,621 remains questioned until this is accomplished and explained to ETA. These recommendations remain open and unresolved.**

## **6. Participant Files Did Not Include Sufficient Documentation to Substantiate Eligibility**

Participant files for both the MSFW and the WtW programs did not include sufficient documentation to substantiate participant eligibility. The CET lacked adequate procedures for documenting applicants eligibility. Based on the results of our PY 1998 statistical samples, we concluded that:

- 6 percent of the MSFW participants, and
- 22 percent of the WtW participants,

did not have adequate documentation to substantiate their eligibility. Since we could not determine that any of these participants tested were actually ineligible for the programs, we are not questioning any costs related to eligibility.

### **Eligibility Requirements**

For each student applying for DOL funding, the CET must determine whether the applicant meets the eligibility criteria. This includes interviewing the applicant and obtaining documentation which substantiates the applicant's economic and educational situation.

To be eligible for the MSFW program, an individual, according to 20 CFR §633, must have:

- Been a seasonal farm worker; and,
- Received at least 50 percent of total income or been employed at least 50 percent of their total work time in farmwork; and,
- Been identified as a member of a family which receives public assistance or whose annual family income does not exceed the higher of either the poverty level or 70 percent of the Lower Living Standards Income Level; or
- Been dependents of an individual described above.

To qualify for the WtW program, an individual must:

- Be an individual defined as Hard-to-Employ per 20 CFR §645.212, or
- Be an individual with Long-Term Welfare Dependence characteristics as defined in 20 CFR §645.213.

### **MSFW Program**

We reviewed 281 randomly selected MSFW program participant files. Sixteen files did not contain adequate information to verify MSFW program eligibility. More specifically, four did not have documentation to show the applicant was employed in farmwork. Examples of these questionable employers included: insurance services, a restaurant, and a brewery. The files did not document why work for these employers was considered farmwork. In addition, twelve

participant files did not have documentation to show the farm worker was employed only on a seasonal basis. Some of these individuals, for example, worked on dairy farms, nurseries, and an egg packaging plant which may not be seasonal work. Based on the results of our statistical sample, we concluded that the eligibility of 6 percent of the participants in the MSFW program may not be substantiated.

### **WtW Program**

We examined 88 randomly sampled WtW program participant files. Of the 88 participant files tested, 21 did not include adequate information to substantiate WtW program eligibility. All 21 participants belonged to the Long-Term Welfare Dependence category. To be eligible in this WtW category, an individual must be a current and long-term Temporary Assistance to Needy Families (TANF) recipient and have at least two barriers to employment.

Specifically, 9 of the 21 files lacked proof that the participants were current and long-term TANF recipients; 4 files lacked proof that the participants had 2 barriers to employment; and 8 files lacked proof that the participants met either criteria. Using statistical projections, we concluded that the eligibility of 22 percent of participants in the WtW program may not be substantiated.

### **Conclusion**

A significant portion of the CET's participants, 6 percent in the MSFW program and 22 percent in the WtW program, did not have adequate documentation to substantiate their eligibility. As a result, neither the CET nor ETA has assurances that all MSFW and WtW participants were actually eligible for the programs.

### **Recommendation**

We recommend the Assistant Secretary for Employment and Training require the CET to strengthen its procedures for documenting MSFW and WtW participants' eligibility.

### **The CET Response**

The CET responded by stating:

During the audit CET staff gathered additional information on the eligibility of the 16 FW participants the OIG auditors deemed unverifiable. Of the 16 FW participants identified by the OIG that required additional information for eligibility determination, 12 FW participants eligibility determination period and/or eligibility worksheets were corrected to verify eligibility. It appears that 2 participants may not qualify, and 2 are still pending additional information. . . . A simple note in the file would have cleared up many of these

eligibility questions — for example, that the employer was a farmer even though the pay check was issued by the landowner (an insurance company.) Or, that dairy farms often have extensive layoffs during the wet winter months.

CET has made the same effort to provide additional documentation to verify the eligibility of the 21 WtW participants identified by the auditors. . . . The primary difficulty in documenting WtW eligibility is long term welfare dependency. CET staff continue to encounter difficulties in obtaining personal welfare information (welfare dependency period) for WtW participants in training. The local DSS agencies consider this type of information private and confidential, and not for public (or training agency) usage.

Recognizing this problem early on, CET developed a referral form to document that the participant referred to CET by the local DSS agency was eligible to participate in CET's national WtW program. Every WtW participant file contains either a CET WtW referral form or a referral letter (on letterhead) from the DSS agency indicating that the WtW participant qualifies for the CET national training program. This should be sufficient documentation but CET division managers and staff have been trying to secure the level of documentation requested by the auditors. It has been difficult, however, to get a timely response from local social service agencies. This has delayed our ability to resolve some of the students identified by the OIG.

Besides reinforcing the importance of correct documentation in training CET has increased the number of staff who review eligibility documentation to three full time staff positions.

#### **OIG Evaluation of the CET Response**

We disagree that every WtW participant file contains either a referral form or letter on local social service agency letterhead indicating the participant qualifies for the WtW program. The documentation in the files we cited did not establish some of the basic qualifications such as how long the participant had been receiving TANF assistance.

The CET's response is not clear on how it intends to improve documentation. Therefore, this recommendation is open and unresolved.

## **7. The CET Did Not Submit Indirect Cost Proposals Timely**

Over the last 5 years, the CET has not submitted indirect cost proposals timely. This occurred primarily because of major organizational changes in the CET Accounting Department. The CET has not closed out any grants partly due to the lack of approved indirect cost rates. Also, the CET may be able to claim additional funds or may have to return funds, if rates finally approved are higher or lower than rates applied during the grants. As a result of not having approved indirect cost rates, none of the Federal funding sources has any assurance that the indirect costs they were paying were reasonable.

### **Indirect Cost Requirements**

As a grantee for Federal funds, the CET claims indirect costs on cost reimbursable grants and contracts. This includes costs that are incurred for more than one objective such as general administrative cost, staff training, accounting, and printing. The CET generally recovers indirect costs by a rate applied to grant costs.

In order for the CET to be able to collect indirect costs on Federal grants, OMB Circular A-122 requires the CET to prepare an indirect cost proposal. The proposal shows the various types of costs the CET distributes and how the CET allocates the costs to the benefitting CET component. OMB Circular A-122 also requires the CET to submit its cost proposal to its cognizant Federal agency, DOL, 6 months following the close of each fiscal year. DOL reviews and approves the rate for use on all Federal grants.

### **Indirect Cost Proposals Not Submitted Timely**

The CET did not meet these criteria for the last 5 years. For example, for CET's Fiscal Year 1997, that ended June 30, 1997, the CET did not submit the indirect cost proposal until March 2000, more than 2 years late.

The CET's fiscal function has undergone several organizational changes over the last few years. The CET actually outsourced the fiscal function and only recently brought it back to the CET. During this time, keeping up with day-to-day fiscal operations has been difficult for the CET.

### **Recommendation**

We recommend that the Assistant Secretary for Employment and Training instruct the CET to submit its indirect cost proposals timely and monitor the CET's compliance with this requirement.

### **The CET Response**

## **EXHIBITS**



Center for Employment Training  
Migrant and Seasonal Farmworker Program  
Statement of Audited Costs (Financial Status Report)  
Program Year 1998  
Grant Number C-5439-5-00-81-55

Cost Categories	Costs Reported	Questioned Costs By Finding				Costs Per Audit
		1	2	5	5	
		Administratio n Costs	Training Costs	Training- Related Supportive Services	Training Costs	
<b>1. Training Costs</b>						
a. Classroom Training	\$ 9,241,682		\$ (228,519)		\$ (28,733)	\$ 8,984,430
b. On-the-Job Training	2,856					2,856
c. Training Assistance	0					0
Subtotal: Training	9,244,538		(228,519)		(28,733)	8,987,286
<b>2. Supportive Services</b>						0
a. Training Related	158,888			(158,888)		0
b. Services Only	393,750					393,750
Subtotal: Services	552,638			(158,888)		393,750
<b>3. Administration</b>	979,717	(979,717)				0
<b>Total Project Costs</b>	<b>\$ 10,776,893</b>	<b>\$ (979,717)</b>	<b>\$ (228,519)</b>	<b>\$ (158,888)</b>	<b>\$ (28,733)</b>	<b>\$ 9,381,036</b>

**Center for Employment Training**  
**Migrant and Seasonal Farmworker Program**  
**Performance Data (Program Status Summary)**  
**Program Year 1998**  
**Grant Number C-5439-5-00-81-55**

<b>SELECTED DATA USED IN CALCULATING PERFORMANCE STANDARDS</b>	
<b>Performance Category</b>	<b>Performance Data</b>
<b>Terminations</b>	
<b>Entered Employment</b>	<b>928</b>
<b>Enhanced Only</b>	<b>130</b>
<b>Services Only</b>	<b>2137</b>
<b>Other Termination</b>	<b>163</b>
<b>Total Terminations</b>	<b>3358</b>
<b>Entered Employment Rate</b>	
<b>Minimum Standard Employment Rate</b>	<b>48.50%</b>
<b>Actual Employment Rate</b>	<b>76.00%</b>
<b>Hourly Wages</b>	
<b>Minimum Standard Hourly Wage</b>	<b>\$5.77</b>
<b>Actual Wage at Termination</b>	<b>\$7.69</b>

**Center for Employment Training**  
**Welfare-to-Work Program**  
**Statement of Audited Costs (Financial Status Report)**  
**Program Year 1998**  
**Grant Number Y-6802-8-00-81-60**

<b>Cost Categories</b>	<b>Costs Reported</b>	<b>Questioned Costs</b>	<b>Costs Per Audit</b>
<b>Section I:</b>			
<b>Federal Expenditures (excluding Admin)</b>	\$ 1,767,856	\$ 0	\$ 1,767,856
<b>Federal Administrative Expenditures</b>	261,596	0	261,596
<b>Total</b>	\$ 2,029,452	\$ 0	\$ 2,029,452
<b>Section II:</b>			
<b>Work Experience</b>	1,749,566	0	1,749,566
<b>Supportive Services</b>	18,290	0	18,290
<b>Total</b>	\$ 1,767,856	\$ 0	\$ 1,767,856

**Center for Employment Training**  
**Welfare-to-Work Program**  
**Statement of Audited Costs (Financial Status Report)**  
**Program Year 1998**  
**Grant Number Y-6802-8-00-81-60**

<b>SELECTED DATA USED IN CALCULATING PERFORMANCE STANDARDS</b>	
<b>Performance Category</b>	<b>Performance Data</b>
<b>Participant Summary</b>	
<b>Enrolled</b>	<b>424</b>
<b>Terminated</b>	<b>169</b>
<b>Placed in Unsubsidized Employment</b>	<b>122</b>
<b>Entered Employment Rate</b>	
<b>Planned Minimum Employment Rate</b>	<b>75%</b>
<b>Actual Employment Rate</b>	<b>72%</b>

Center for Employment Training  
Replication Project  
Statement of Audited Costs (Grantee's Detailed Statement of Costs)  
Program Year 1998  
Grant Number J-3912-2-00-81-75

Cost Categories	Costs Reported	Questioned Costs by Finding 3	Costs Per Audit
		Ineligible Costs Charged	
<b>1. Personnel Costs</b>			
a. Salaries and Wages	\$ 304,923		\$ 304,923
b. Fringe Benefits	82,539		82,539
Subtotal: Personnel	387,462		387,462
<b>2. Other Expenses</b>			
a. Travel	50,428		50,428
b. Consumables	138		138
c. Equipment Leases	4,141		4,141
d. Communication	1,352		1,352
e. Printing	966		966
f. Professional Services	119,268	(119,268)	0
g. Miscellaneous	1,039		1,039
h. Indirect	27,108		27,108
i. Depreciation	7,024		7,024
Subtotal: Other Expenses	211,464	(119,268)	92,196
<b>Total Project Costs</b>	<b>\$ 598,926</b>	<b>\$ (119,268)</b>	<b>\$ 479,658</b>

## **APPENDIX**

### **Center for Employment Training Response**