

**U.S. Department of Labor
Office of Inspector General
Chicago Regional Audit Office**

INTERIM FINANCIAL AND COMPLIANCE AUDIT

**WELFARE-TO-WORK
COMPETITIVE GRANT PROGRAM**

**DEPAUL UNIVERSITY
AGREEMENT NO. Y-6814-8-00-81-60
INTERIM AUDIT PERIOD
JULY 1, 1998 THROUGH JUNE 30, 2000**

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ACRONYMS/ABBREVIATIONS

| | |
|-----------------|--|
| 1999 Amendments | Welfare-to-Work and Child Support Amendments of 1999 |
| AFDC | Aid to Families with Dependent Children |
| ASAP | Alternative Sentencing Approach Program |
| CAP | Cost Allocation Plan |
| CFR | Code of Federal Regulations |
| CLB | Chicago Lighthouse for the Blind |
| DOL | U.S. Department of Labor |
| ETA | Employment and Training Administration |
| IDHS | Illinois Department of Human Services |
| MIS | Management Information System |
| OAI | Office of Applied Innovations |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| PIC | Private Industry Council |
| QFSR | Quarterly Financial Status Report |
| TANF | Temporary Assistance for Needy Families |
| WtW | Welfare-to-Work |

EXECUTIVE SUMMARY

The U.S. Department of Labor, Office of Inspector General (OIG) has completed an interim financial and compliance audit of the \$5,000,000 Welfare-to-Work (WtW) Competitive Grant awarded to DePaul University (DePaul). The grant's original period of performance was July 1, 1998, through December 31, 2000, and was extended via a grant modification through June 30, 2001. Our interim audit period was from July 1, 1998, through June 30, 2000. As of June 30, 2000, DePaul had claimed \$2,313,766 of expenditures in support of 802 WtW clients served.

Our audit objectives were to:

- C review and evaluate DePaul's WtW financial, programmatic, and performance systems and operations;
- C evaluate DePaul's compliance with applicable provisions of WtW legislation, regulations, Office of Management and Budget (OMB) Circulars, and specific grant requirements; and
- C express an opinion on the accuracy of DePaul's Quarterly Financial Status Report (QFSR) as of June 30, 2000.

To answer the audit objectives, we interviewed DePaul's key officials involved in the WtW initiative and reviewed supporting documentation provided by these officials.

Our audit disclosed that DePaul generally has the financial, programmatic, and performance systems and operations in place to properly administer the WtW Competitive Grant. We also found that DePaul generally complied with the applicable provisions of the WtW legislation, regulations, OMB Circulars, and specific grant requirements. However, as a result of the findings described below and on the next page, we express a qualified opinion on the accuracy of DePaul's QFSR as of June 30, 2000. Our audit disclosed the following findings:

1. noncompliance with Federal cost principles, WtW regulations, and uniform administrative requirements resulting in questioned costs of \$154,127* (see Finding 1);
2. noncompliance with Federal WtW eligibility target group reporting requirements resulting in at least 130 misclassified clients and corresponding misclassified costs of at least \$355,550 (see Finding 2);
3. noncompliance with Federal financial reporting requirements (see Finding 3); and

* This amount reflects reduced questioned costs based on additional data provided by DePaul officials subsequent to the release of the draft report.

4. internal control weaknesses in financial reporting, subgrantee monitoring, and the management information system (MIS) (see Finding 4).

We recommend that the Assistant Secretary for Employment and Training:

- ! recover \$154,127* resulting from unallowable costs as detailed in Exhibit A; and
- ! require DePaul to:
 - C establish procurement policies in compliance with Federal requirements;
 - C correct QFSR reporting by adjusting line items 5 and 19, respectively, by transferring:
 - S \$355,550 from *required beneficiaries* expenditures to *other eligibles* expenditures; and
 - S 130 served clients from the *required beneficiaries* line item to the *other eligibles* line item;
 - C revise the cost allocation plan (CAP) to distribute WtW Equipment costs to the *required beneficiaries* vs. *other eligibles* expenditures;
 - C perform cost allocations of the grant expenditures in accordance with their revised CAP and adjust QFSR reporting accordingly;
 - C obtain adequate TANF and AFDC evidence from the Illinois Department of Human Services (IDHS) for each WtW client prior to expending grant funds on the client;
 - C formalize QFSR reporting policies to ensure documentation is maintained; QFSRs are reviewed and reconciled to the formal books and records prior to submission to ETA; and all subgrantee expenditures are promptly obtained and reported on the QFSR;
 - C ensure that MIS client eligibility category changes are only executed after an eligibility change is approved by a supervisor and documented in the client's case file;
 - C ensure all WtW staff receives periodic MIS output reports to verify client eligibility changes and to ensure that corresponding client costs are adjusted prior to QFSR reporting; and
 - C formalize subgrantee monitoring procedures.

* This amount reflects reduced questioned costs based on additional data provided by DePaul officials subsequent to the release of the draft report.

DePaul officials generally concurred with our findings and identified procedures that they have either taken or plan to implement to address our recommendations. Subsequent to the release of the draft report, we were provided additional grant documentation resulting in questioned costs being reduced to \$154,127 as detailed in Exhibit A.

DePaul's Office of Applied Innovations (OAI), which operated the WtW program, is now an independent corporation. Consequently, DePaul terminated the WtW program as of April 15, 2001 and requested that the remaining WtW grant funds be deobligated.

BACKGROUND

Welfare-to-Work Legislation

In August 1996, the Personal Responsibility and Work Opportunity Reconciliation Act reformed the nation's welfare laws. A system of block grants to the states for Temporary Assistance for Needy Families (TANF) was created, changing the nature and provision of welfare benefits in America. Moving people from welfare to work is one of the primary goals of Federal welfare policy.

In August 1997, President Clinton signed the Balanced Budget Act of 1997. This legislation amended certain TANF provisions of the Social Security Act and authorized the Secretary of Labor to provide WtW grants to states and local communities for transitional assistance to move the *hard-to-employ* TANF welfare recipients and eligible non-custodial parents into unsubsidized jobs and economic self-sufficiency.

In November 1999, as part of the Consolidated Appropriations Act for Fiscal Year 2000, the "Welfare-to-Work and Child Support Amendments of 1999" (1999 Amendments) were enacted. The changes included in this legislation allow WtW grantees to more effectively serve both long-term welfare recipients and non-custodial parents of low-income children. WtW reporting requirements were also streamlined. Specific changes included new eligibility requirements, effective January 1, 2000, which expanded the pool of eligible clients for the both targeted groups (*required beneficiaries* and *other eligibles*) as well as allowing six months of vocational education and job training prior to "work-first" activities.

Summary of Welfare-to-Work Grants

- ! **Funding:** A total of \$3 billion was appropriated for this program: \$1.5 billion was available in each of Fiscal Years (FY) 1998 and 1999. There are two kinds of grants: (1) formula grants to states, and (2) competitive grants to local communities. A small amount of the total grant money was set aside for special purposes: One percent for Indian tribes; 0.8 percent for evaluation; and \$100,000,000 for performance bonuses to successful states.

- ! **Formula Grants to States:** After reserving the special purpose funds described above, 75 percent of the grant funds were allocated to states based on a formula that equally considered states' shares of the national number of poor individuals and adult TANF recipients. States were required to pass through 85 percent of the money to local Private Industry Councils (PICs) -- known as workforce development boards in some areas -- which oversee and guide job training programs in geographical jurisdictions called service delivery areas. A state was allowed to retain 15 percent of the money for WtW projects of

its choice. States must provide one dollar of non-Federal funding match for every two dollars of Federal funding provided under the formula.

! **Competitive Grants to Local Communities:** The 25 percent of funds not allocated by formula were used for competitive grants awarded directly to local governments, PICs, and private entities (such as community development corporations, community-based organizations, community action agencies, universities, and other private organizations) who applied in conjunction with a PIC or local government. The Secretary of Labor gave special consideration to cities with large concentrations of poverty and to rural areas.

! **Features Which Apply to *Both* Formula and Competitive Grants:**

Allowable Uses of Funds: Funds may be used to help move eligible individuals into jobs by: job creation through public or private sector wage subsidies; on-the-job training; contracts with public or private providers of job readiness, job placement, and post-employment services; job vouchers for similar services; community service or work experience; or job retention and supportive services (if such services are not otherwise available).

Summary of Targeted Participant Eligibility Groups

! **Required Beneficiaries:**

C **Before January 1, 2000** — At least 70 percent of the grant funds must be spent on TANF recipients who face two of three specified labor market deficiencies and who are long-term welfare recipients [30 or more months receiving TANF or its predecessor -- Aid to Families With Dependent Children (AFDC)], or who face termination from TANF within 12 months; or who are non-custodial parents who face two of three specified labor market deficiencies and the recipient or minor child of the non-custodial parent are long-term welfare recipients or face termination from TANF within 12 months. Labor market deficiencies include (1) lack of high school diploma or general equivalency diploma and low reading or math skills, (2) requiring substance abuse treatment for employment, and (3) a poor work history.

C **January 1, 2000 and after** — The 1999 Amendments remove the requirement that long-term TANF recipients must meet additional barriers to employment in order to be eligible for WtW as *required beneficiaries*. Therefore, TANF recipients are eligible if they have received cash assistance for at least 30 months (whether consecutive or not), if they are within 12 months of reaching their TANF time limit, or if they have exhausted their receipt of TANF due to time limits.

In addition, non-custodial parents are eligible under the *required beneficiaries* category if they meet all three of the following:

- (1) they are unemployed, underemployed, or having difficulty paying child support obligations;
- (2) their minor children are eligible for, or receiving TANF benefits (with a priority for parents with children who are long-term recipients), received TANF benefits during the proceeding year, or are eligible for, or receiving assistance under the Food Stamps program, the Supplemental Security Income program, Medicaid, or the Children's Health Insurance Program; and
- (3) they are in compliance with a personal responsibility contract under which they commit to cooperating in establishing paternity and paying child support, to participating in services to increase their employment and earnings, and to support their children.

! Other Eligibles (30 Percent):

- C **Before January 1, 2000** — Up to 30 percent of the grant funds may be spent on individuals who are "recent" recipients of TANF assistance, or non-custodial parents, who have characteristics associated with long-term welfare dependence -- such as school dropout, teen pregnancy, or poor work history.
- C **January 1, 2000 and after** — The 1999 amendments add several categories of eligibility under the 30 percent provision, including (1) TANF recipients who have significant barriers to self-sufficiency under criteria established by the local PIC, (2) youth aged 18 to 25 who have "aged out" of foster care, and (3) custodial parents with incomes below the poverty line. Non-custodial parents are no longer eligible under the 30 percent provisions but may be served under the required beneficiaries' provisions described above.

Summary of DePaul University's WtW Competitive Grant:

The U.S. Department of Labor, Employment and Training Administration (ETA) awarded a \$5,000,000 WtW Competitive Grant to DePaul on July 29, 1998. The grant's period of performance was July 1, 1998, through December 31, 2000, and the scope of work required DePaul to serve 1,958 clients at a projected cost of \$2,554 per client served. Of the 1,958 clients to be served, 65 percent (or 1,273) were to be placed in unsubsidized employment. Modification No.1, effective July 1, 1998, required DePaul to report the grant's financial status to ETA via the WtW Competitive Grant Cumulative QFSR (Form ETA-9068-1). Instructions for completing the QFSR by line item were included with Modification No. 1. Modification No. 2, effective September 8, 1999, allowed DePaul to realign the funding within the grant's budget categories. Modification No. 3, effective September 28, 2000:

- C extended the grant's period of performance through June 30, 2001,
- C allowed DePaul to realign the funding within the grant's budget categories to reflect most of the grant activity being performed "in-house" instead of previously subcontracted, and
- C reduced the number of clients to be served from 1,958 to 1,200 which increased the projected cost per client served from \$2,554 to \$4,167.

PRINCIPAL CRITERIA

The following criteria were used in this audit:

- ! 20 Code of Federal Regulations (CFR) Part 645 - Welfare-to-Work Grants; Interim Rule, dated November 18, 1997
- ! 1999 Amendments
- ! 29 CFR Part 95 - Uniform Administrative Requirements for Federal Grants and Agreements Awarded to Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
- ! OMB Circular A-21 - Cost Principles for Educational Institutions.

These criteria will be referred to throughout the report. The excerpts we cited in this report are included in **Appendix B**.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our audit objectives were to:

- (1) review and evaluate DePaul's WtW financial, programmatic, and performance systems and operations,
- (2) evaluate DePaul's compliance with applicable provisions of WtW legislation, regulations, Office of Management and Budget (OMB) Circulars, and specific grant requirements, and
- (3) express an opinion on the accuracy of DePaul's QFSR as of June 30, 2000 (**Appendix A**).

Scope

We performed an interim financial and compliance audit for the period July 1, 1998, through June 30, 2000.

Methodology

Financial

We audited \$2,313,766 of claimed expenditures as reported on the amended QFSR, dated August 16, 2000. This amended QFSR, for the period ending June 30, 2000, was electronically submitted by OAI to DOL-ETA via the Internet in late August 2000. The QFSR's reported expenditures included salaries, fringe benefits, equipment, administrative costs, supplies, travel, and indirect costs incurred by DePaul; and contractual costs for the subgrantees.

Using a judgmental sample, we audited the salaries, fringe benefits, and cash stipends incurred by DePaul as well as all claimed expenditures for one selected subgrantee, Alternative Sentencing Approach Program (ASAP). Using a statistical sampling plan and methodology, we audited the remainder of DePaul's claimed costs. However, the questioned costs within our sample were not projected to the universe of claimed costs.

We reviewed DePaul's compliance with Federal requirements pertaining to the WtW Competitive Grant. We also reviewed audit reports prepared in accordance with OMB Circular A-133. These reports were the most recent available and covered the period July 1, 1997, through June 30, 1999. The Reports on Compliance and on Internal Control Over Financial Reporting, and the Reports on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance did not identify any material weaknesses. We relied on the other auditors' assessment of internal control and only performed a limited evaluation of DePaul's system of internal accounting control as it affects the QFSR.

Compliance (Eligibility)

We reviewed 260 randomly selected client files in support of DePaul's 802 reported WtW clients served. The following process was used to select our sample. The 802 reported clients were grouped within three strata according to where each WtW client was serviced: (1) DePaul's OAI -- 667; (2) New City YMCA -- 123; and (3) Chicago Lighthouse for the Blind -- 12. We tested both the client's WtW eligibility and designated eligibility target group [*designated beneficiaries / hard-to-employ* (70 percent) or *other eligibles* (30 percent)] for all 260 reviewed client files. The sample was selected to yield a confidence level of 95 percent plus or minus 5 percent precision.

For many of the sampled clients, we also reviewed the IDHS Client Tracking System in order to determine whether the WtW client had accumulated 30 or more months receipt of TANF and/or AFDC cash assistance as of the date of WtW eligibility determination.

Our audit was performed in accordance with Government Auditing Standards, as issued by the Comptroller General of the United States. Fieldwork began August 7, 2000, and concluded on April 25, 2001.

OPINION

We have audited the accompanying QFSR of the DePaul University WtW Competitive Grant for the interim period July 1, 1998, through June 30, 2000. This QFSR is the responsibility of DePaul's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We have also audited DePaul's compliance with the requirements governing the WtW Competitive Grant. Compliance with laws, regulations, contracts, and grants applicable to DePaul is the responsibility of DePaul's management. To obtain reasonable assurance about whether the financial statement is free of material misstatements, we performed tests of DePaul's compliance with certain provisions of laws, regulations, grants, and contracts. However, the objective of our audit of the QFSR was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

In planning and performing our audit of DePaul's QFSR, we reviewed audit reports prepared in accordance with OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations." These reports were prepared by a DePaul contractor and were the most recent available covering the period July 1, 1997, through June 30, 1999. Within these reports, we reviewed the Reports on Compliance and on Internal Control Over Financial Reporting, and the Reports on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance. No material weaknesses were identified. Although we relied on the other auditors' assessment of internal control, we performed a limited evaluation of DePaul's system of internal accounting control as it affects the QFSR. The objective of our internal control testing was to assess control risk in planning the audit of the QFSR and not to provide an opinion on internal controls. Accordingly, we do not express an opinion.

However, we noted several matters involving the internal control structure and its operation over QFSR preparation that we consider to be reportable conditions, but not material weaknesses. The following internal control weaknesses are explained in detail within Finding No. 4:

- C DePaul lacks a formal subgrantee monitoring system;
- C DePaul lacks a formal QFSR reporting system; and
- C DePaul has weak access control to the WtW MIS.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, as issued by the Comptroller General of the United States. Those standards

require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

The result of our audit disclosed instances in which DePaul did not comply with the requirements that:

- C QFSRs are supported by the accounting system including source documentation;
- C QFSRs are supported by the MIS;
- C QFSR expenditures only include reasonable costs;
- C QFSR expenditures are properly allocated between the eligibility target groups;
- C subgrantees promptly report expenditures;
- C subgrantees maintain detailed accounting records;
- C only clients eligible for the WtW program are served; and
- C clients are designated in the “30 percent *other eligibles*” targeted eligibility group when they meet only the criteria for this group.

In our opinion, except for the matters identified in this report and in the accompanying Exhibits A through D, the QFSR presents fairly, in all material respects, the financial and programmatic position of the DePaul WtW Competitive Grant as of June 30, 2000, in conformity with generally accepted accounting principles.

This report is intended for the information of the U.S. Department of Labor, Employment and Training Administration and DePaul University. However, upon issuance, this report becomes a matter of public record and its distribution is unlimited.

John J. Getek
Assistant Inspector General
for Audit

OTHER REPORTABLE MATTERS

Using a statistical sampling plan and methodology, we reviewed each client's WtW eligibility for 260 of DePaul's 802 claimed WtW clients. During eligibility testing, we found that the New City YMCA (a DePaul subgrantee) served six clients who were determined to be ineligible for WtW services (**see Exhibit C**). We determined that the six clients' eligibility documents were not in compliance with 20 CFR Parts 645.212 and 645.213 or the 1999 Amendments. The New City YMCA did not submit any expenditures to DePaul in support of their 123 WtW clients served during our audit period.

The Assistant Secretary for Employment and Training must ensure that DePaul reduces any future voucher/invoice received from the New City YMCA by the respective expenditures associated with the six ineligible clients and does not include these respective costs within future QFSR expenditures.

FINDINGS AND RECOMMENDATIONS

1. **Noncompliance with Federal Cost Principles, WtW Regulations, and Uniform Administrative Requirements**

DePaul did not always comply with Federal cost principles, WtW regulations, and uniform administrative requirements. We disclosed in our draft report that DePaul included \$173,465* of unallowable costs within the QFSR claimed expenditures and maintained inadequate procurement policies.

a. QFSR expenditures include unallowable costs

DePaul claimed unallowable costs including:

- C WtW client cash stipends,
- C expenditures in support of three ineligible clients,
- C a cash advance to one subgrantee which subsequently ceased operations, and
- C expenditures that were either unsupported or unreasonable.

These expenditures did not comply with Federal requirements as defined in OMB Circular A-21, 20 CFR Part 645, 29 CFR Part 95, and/or ETA's WtW Questions and Answers for Allowable Activities. As a result, we questioned \$173,465* as detailed in Exhibit A, and supporting schedules.

b. DePaul's procurement policies are inadequate

We determined that DePaul has limited procurement policies and procedures and has decentralized their procurement system. We found that existing procurement policies and procedures do not comply with uniform administrative requirements for Federal grants (29 CFR Parts 95.42 through 95.46) because they do not address:

- S employee code of conduct,
- S free and open competition,
- S cost and price analysis,
- S maintaining procurement records, and
- S sole source justification.

* This amount has been reduced to reflect additional data provided by DePaul officials subsequent to the release of the draft report.

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

- a. recover \$154,127 (\$173,465 less \$19,338) resulting from unallowable costs as detailed in Exhibit A; and
- b. require DePaul to establish procurement policies that comply with uniform administrative requirements for Federal grants.

Grantee Response

DePaul officials requested that the following questioned costs be allowed:

- C Cash stipends paid to clients (\$29,965) were included in their grant proposal which was reviewed, negotiated, and approved by ETA.
- C Two of three ineligible clients were eligible (\$6,326). DePaul had exceeded planned enrollments and documentation can be provided for eligibility.
- C DePaul officials put forth a good faith reasonable effort to obtain supporting documentation for payments to a subgrantee (\$84,053) which suddenly ceased operations. DePaul took steps that a reasonably prudent business person would take to ensure that the subgrantee was a responsible partner.
- C DePaul believes that they have adequate support for the majority of the unsupported or unreasonable expenditures (\$49,958).

DePaul's procurement policies will be clarified, where appropriate, to more closely mirror the Federal regulation's wording.

Auditor's Conclusion

We reviewed DePaul's response which resulted in the following conclusions:

- a. Costs subject to recovery:
 - C Per ETA's WtW Questions and Answers for Allowable Activities, cash incentives paid to clients is not an allowable activity. Therefore, the cash stipends paid to clients can only be allowed by the Grant Officer.
 - C The additional source documentation to support two clients' eligibility was not provided by DePaul officials.

C Adequate source documentation in accordance with Federal regulations was not provided to support subgrantee payments.

C DePaul officials did however provide additional data to support \$19,338 in expenditures previously found to be unsupported or unreasonable.

As a result, the questioned cost has been reduced to \$154,127.

- b. Procurement policies - We consider the initial corrective action taken by DePaul sufficient to resolve the second recommendation. However, the finding cannot be closed until the Grant Officer has determined that the corrective action has been properly implemented.

2. Noncompliance with Federal WtW Eligibility Target Group Reporting Requirements

DePaul did not always comply with Federal WtW eligibility requirements when reporting client expenditures and programmatic activity on the QFSR for the period ending June 30, 2000. DePaul reported incorrect expenditures and program data on the QFSR. The incorrect reporting resulted from (a) the misclassification of *hard-to-employ* and *other eligible* clients; and (b) the consolidation of costs associated with the *hard-to-employ* and *other eligible* clients during the first year of grant activity.

a. Misclassification of *hard-to-employ* and *other eligible* clients

Under terms of the WtW Competitive Grant, DePaul was to expend the majority of their funds and effort in meeting the needs of *hard-to-employ* clients. During our audit period, DePaul reported serving a total of 802 clients. The client total consisted of 551 *hard-to-employ* and 251 *other eligibles*. Our review disclosed that DePaul had overstated the *hard-to-employ* by at least 130 clients. As a result, DePaul also overstated the reported costs for the *hard-to-employ* by \$355,550 on the QFSR.

Using a statistical sampling plan, we reviewed 260 of the 802 clients reported by DePaul. The sample consisted of the following:

| Category | Hard-to-Employ (70%) | Other Eligibles (30%) | Total |
|----------|-------------------------|--------------------------|-------|
| Per QFSR | 551 | 251 | 802 |
| Sampled | 180 | 80 | 260 |

The results of our sample are presented in detail in Exhibit C and Exhibit D, and are summarized as follows:

| Category | Hard-to-Employ (70%) | Other Eligibles (30%) | Total | Note |
|---------------|-------------------------|--------------------------|-------|------|
| Sampled | 180 | 80 | 260 | |
| Ineligibles | 5 | 7 | 12 | 1 |
| Misclassified | -54 | +54 | 0 | 2 |

- Note 1: The clients were determined ineligible because:
- C seven clients, designated as receiving TANF, were not receiving TANF;
 - C three clients did not have sufficient documentation to qualify as custodial parents with incomes below the poverty line; and
 - C two clients did not have any designated characteristics associated with long-term welfare dependence as required by 20 CFR Part 645 or the 1999 Amendments.

- Note 2: Within our eligibility sample, we found that 54 of 180 designated *hard-to-employ* (70 percent) WtW clients met only the *other eligibles* (30 percent) criteria because they were either:
- C clients not meeting two of three additional barriers to employment as specified in 20 CFR Part 645.212 (a)(2); and/or
 - C clients designated as having received 30 or more months of TANF or AFDC cash assistance as of the date of WtW eligibility determination as specified in 20 CFR Part 645.212(a)(3), but in fact had not received the required cash assistance.

The sampling plan was developed to provide a 90 percent confidence level in projecting the results of our sample to the total of 802 served clients. The projected results of our sample are presented below:

| Category | | Hard-to-Employ (70%) | Other Eligibles (30%) | Total |
|---------------------------------|-----------|-------------------------|--------------------------|-------|
| Per QFSR | | 551 | 251 | 802 |
| Ineligibles in Sample | | 5 | 7 | -12 |
| Misclassified in Universe | Low | -130 | +130 | 0 |
| | Mid-Point | -161 | +161 | 0 |
| | High | -192 | +192 | 0 |

We are 90 percent confident that our client category error range as projected to the universe is at between 130 and 192 clients. We are 90 percent confident that 130 clients designated as *hard-to-employ* (70%) clients only qualify as *other eligibles* (30%).

Therefore, the reported results on Lines 19(1) and 19(2) of the QFSR should have been as follows:

| Category | Hard-to-Employ (70%) | Other Eligibles (30%) | Total |
|--------------------------|-------------------------|--------------------------|-------|
| Per QFSR | 551 | 251 | 802 |
| Projected Classification | 416 | 374 | 790 |

Required Beneficiaries expenditures (QFSR, Line 5a) for the *hard-to-employ* should be reduced by the costs associated with the 130 misclassified clients and added to Other Eligibles expenditures (QFSR, Line 5b) as follows:

| Misclassified Clients | Cost per Client Served (see Exhibit B) | Misclassified Costs |
|-----------------------|---|---------------------|
| 130 | \$2,735 | \$355,550 |

b. Consolidation of costs associated with the hard-to-employ and other eligible clients

The misclassification of costs was further compounded by actions taken during the grant’s first year of performance by DePaul’s OAI. Initially, two accounts were established within DePaul’s accounting system to track WtW costs in the grant’s first year of performance:

- C 5-20736 – WtW Administration
- C 5-20739 – WtW 70% Direct Participant

A former OAI accountant expected that the WtW program would incur expenses for *hard-to-employ* clients exclusively during the first year of operation. However, *other eligible* clients were served during the grant’s first year due to OAI’s inability to:

- C receive accurate and consistent WtW client TANF and/or AFDC data from the IDHS local offices, and/or
- C properly document client case files to ensure compliance with 20 CFR Part 645.212 (70 percent eligibility provisions).

All accounts, including the two WtW accounts, within DePaul’s financial accounting system were closed out without the separation of 70/30 costs within the general ledger after the grant’s first year of performance. Expenditures totaling almost \$1 million were accumulated in these two WtW accounts. The situation was further compounded due to at least three OAI accountant personnel changes.

At the beginning of the grant's second year of performance, two additional WtW accounts were established within DePaul's financial accounting system:

- C 5-20408 – WtW 30% Direct Participant
- C 5-20406 – WtW Equipment

In addition, OAI refined a Cost Allocation Plan (CAP) during the second year operations to provide a mechanism to charge direct costs appropriately and to allocate pooled costs consistently across the four accounts established for WtW. The CAP also provided a mechanism to allocate expenditures accumulated within the WtW Administration account for proper reporting of *required beneficiaries* vs. *other eligibles* total client costs within the QFSR, Lines 5a and 5b. These actions allowed DePaul to correctly allocate the grant expenditures incurred during the second grant year with the exception of the WtW Equipment costs. The CAP defined the types of items to be included in the WtW Equipment account, but was silent about how to allocate the costs to the *required beneficiaries* vs. *other eligibles* expenditures. Furthermore, DePaul did not correct the expenditures reported during the first year of grant operation.

Recommendations

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

- a. correct QFSR reporting by adjusting line items 5 and 19, respectively, by transferring:
 - S \$355,550 from *required beneficiaries* expenditures to *other eligibles* expenditures; and
 - S 130 served clients from the *required beneficiaries* line item to the *other eligibles* line item;
- b. revise the CAP to distribute the WtW Equipment costs to the *required beneficiaries* vs. *other eligibles* expenditures;
- c. perform cost allocations of the grant expenditures in accordance with their revised CAP and adjust QFSR reporting accordingly; and
- d. obtain adequate TANF and AFDC evidence from the IDHS for each WtW client prior to expending grant funds on the client.

Grantee Response

DePaul officials generally concurred with this finding. The IDHS, which administers the TANF program in Illinois, did not provide reliable or accurate documentation on client eligibility and 70/30 classifications. DePaul met several times with IDHS to rectify the situation. DOL officials

were also unable to obtain accurate information from IDHS. Consequently, DePaul officials were forced to perform much more work than was originally envisioned in their grant proposal and tried to collect the information on their own.

DePaul officials concurred with five of 12 ineligible clients and 22 of 54 misclassified clients. The ineligible clients were counted as enrollments only and will be de-enrolled and deducted from the total enrollment.

Auditor's Conclusion

Based upon our review of DePaul's evidence in support of 12 ineligible clients, we consider 3 of these clients to be eligible for the WtW program. However, two clients were categorized as *hard-to-employ* (70 percent) but were only eligible under the 30 percent criteria. Consequently, these two clients were added to Exhibit D. The other client was categorized as an *other eligible* (30 percent) receiving TANF but met the criteria of a custodial parent with income below the poverty line. Our final determination is nine ineligible clients.

Based upon our review of DePaul's evidence in support of 54 misclassified clients, we consider 2 of these clients to be properly classified as *hard-to-employ*. Because 2 clients are now determined to be properly classified and 2 previously ineligible clients are now determined to be misclassified, our final determination is 54 misclassified clients.

The grantee is in the process of reallocating program costs in accordance with their revised CAP. DePaul also terminated the WtW program as of April 15, 2001.

Although DePaul's corrective action is a partial solution, we disagree on the number of ineligible and misclassified clients. Therefore, our conclusion for each recommendation is as follows:

- a. The misclassified clients and misclassified costs remain unchanged.
- b. The CAP should be revised to distribute the WtW Equipment costs to the *required beneficiaries* vs. *other eligibles* expenditures.
- c. Cost allocations of the grant expenditures should be performed in accordance with the revised CAP. QFSR reporting should then be adjusted accordingly.
- d. Corrective action regarding IDHS evidence is not required due to the termination of the grant.

3. Noncompliance With Federal Financial Reporting Requirements

DePaul did not always comply with QFSR requirements. We found that DePaul:

- a. submitted a QFSR that could not be reconciled to DePaul's accounting system or MIS; and
- b. did not promptly obtain and report subgrantee expenditures.

a. QFSR not supported by the accounting system and MIS

DePaul submitted a QFSR, dated August 16, 2000, with reported expenditures of \$2,452,578 in support of 809 served WtW clients. We were unable to reconcile Federal expenditures (Line Item 2) or total participants served [Line Items 19(1) and 19(2)] to DePaul's accounting system or MIS, respectively.

29 CFR Part 95.21 requires that DePaul maintain documentation that will permit the accurate preparation of required reports.

DePaul's accounting system documented \$2,313,766 of cumulative expenditures through June 30, 2000, within four accounts established for the WtW project:

| | | |
|---|--------------------------------------|---------------------|
| C | 5-20736 – WtW Administration | \$ 138,813 |
| C | 5-20739 – WtW 70% Direct Participant | 1,834,011 |
| C | 5-20408 – WtW 30% Direct Participant | 263,772 |
| C | 5-20406 – WtW Equipment | <u>77,170</u> |
| | | <u>\$ 2,313,766</u> |

DePaul's WtW MIS (consisting of a database and facsimile listings from two subgrantees) documented only 802 clients with WtW eligibility determination dates before July 1, 2000.

We requested DePaul's assistance in reconciling the QFSR line items. Expenditures were overstated because of an oversight of double counting the cumulative expenditures within Account 5-20736. Served clients were overstated because DePaul counted all clients on the subgrantees' WtW client listings of which seven clients had WtW eligibility determination dates after June 30, 2000. Consequently, DePaul submitted a revised QFSR to ETA, dated August 16, 2000. The results presented in this report are based on the revised QFSR.

Inaccurate financial and programmatic reporting affects ETA's ability to properly exercise its stewardship responsibilities over the WtW program.

b. Subgrantee expenditures are not promptly obtained

We determined that DePaul did not promptly obtain and report subgrantee expenditures for the Chicago Lighthouse for the Blind (CLB) and the New City YMCA.

The CLB served 12 clients from January 1, 1999, through June 30, 2000, but only submitted one invoice to DePaul for \$40,347 covering the period, July 1 through September 30, 1999. As of the invoice ending date, CLB had served five WtW clients and placed only one of these five into unsubsidized employment. No other CLB invoices were reported in DePaul's WtW financial system accounts through June 30, 2000.

The New City YMCA served 123 clients from September 1, 1999, through June 30, 2000, but did not submit any invoices to DePaul during this period. We were provided a report from the YMCA's financial management system which documents WtW expenses of \$332,768 as of June 30, 2000.

Article IX of the agreement between DePaul and the New City YMCA requires monthly invoices be submitted to DePaul. Article VIII of the agreement between DePaul and the CLB requires quarterly invoices be submitted to DePaul and the Scope of Work states that CLB will complete and submit monthly expense vouchers.

The monthly invoices from the New City YMCA and CLB were not obtained by DePaul due to management oversight and a lack of formal monitoring (see Finding 4a). Consequently, the QFSR's reported expenditures were understated because actual subgrantee accumulated expenditures were not included through June 30, 2000.

Recommendations

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

- a. formalize QFSR reporting policies to ensure QFSRs are reviewed and reconciled to the formal books and records prior to submission to ETA; and
- b. ensure that subgrantee expenditures are promptly obtained and reported on the QFSR.

Grantee Response

DePaul officials concurred with this finding. DePaul officials indicate that their QFSR, through March 31, 2001, is directly linked to the financial and programmatic information generated by their accounting system and MIS tracking system. A formal system is in place for the accumulation and assembly of the QFSR's fiscal and programmatic data. DePaul also terminated the WtW program as of April 15, 2001.

Auditor's Conclusion

Corrective action is not needed due to the termination of the grant.

4. Internal Control Weaknesses in Financial Reporting, Subgrantee Monitoring, and the MIS

We determined that certain internal controls within DePaul's WtW reporting system are inadequate. We determined that DePaul needs to strengthen their:

- a. subgrantee monitoring system;
- b. QFSR reporting system; and
- c. access control to the WtW MIS.

a. Formal subgrantee monitoring system is not established

We determined that DePaul's OAI had not established a formal monitoring system. Instead, we were informed by an OAI official that they had conducted several informal monitoring visits to the subgrantees. However, the purpose of the visits, items reviewed, and subsequent determinations were not documented by OAI.

29 CFR Part 95.51 requires grant recipients to monitor each subaward. Further, the agreements between DePaul and its WtW subgrantees require DePaul to conduct site visits at the subgrantees' locations to observe the progress taking place.

Our review of two subgrantees disclosed problems we believe could have been detected by appropriate monitoring visits. For example: We found that the New City YMCA served several ineligible clients and misclassified clients in incorrect eligibility target groups.

Another example: We found that the CLB's cost per client served was excessive as compared to the cost per client served according to the DePaul-CLB agreement. This \$228,743 agreement required CLB to serve at least 50 clients at a maximum calculated cost per client served of \$4,575 ($\$228,743 \div 50$). CLB is serving a difficult population of clients with disabilities and certain start-up costs are to be expected in this program. However, as of CLB's only reported billing to DePaul (\$40,347 from July 1, 1999 through September 30, 1999), the cost per client served was \$8,069 as CLB served only five clients and placed only one client into unsubsidized employment.

We believe that had adequate formal monitoring policies been developed, the above items would have been discovered and resolved by DePaul.

b. Formal QFSR reporting system is not established

We determined that DePaul's OAI had not established a formal system for the preparation and subsequent documentation of the QFSR submitted under the grant. Instead, we were informed by an OAI official that they relied on using the instructions issued by ETA within Modification No. 1 to the Grant Agreement. One accountant in DePaul's OAI was responsible for obtaining and submitting the QFSR data to ETA.

We requested DePaul's previously submitted QFSRs. We were informed that these QFSRs were not maintained. We then requested source documentation to support individual QFSR line items for the revised QFSR for the period ending June 30, 2000. We were informed that the WtW Accountant has view and print access of the WtW account summary reports within DePaul's accounting system. We were also informed that programmatic information is relayed from the WtW Operations Director to the WtW Accountant. The Operations Director obtains data from two subgrantees as well as DePaul OAI's MIS. After programmatic data are relayed from the WtW Operations Director, the WtW Accountant submits the QFSR data via the Internet to ETA. However, source documentation in support of the individual QFSR line items is not maintained.

A sound system of internal control relies upon formal policies and procedures in place to govern financial reporting. Furthermore, a sound system of internal control relies upon supervisory review and approval.

c. Access control to the WtW MIS needs to be strengthened

We determined that all OAI WtW staff had access to OAI's WtW MIS which contains WtW programmatic data for each client. Consequently, the staff, at any time, could arbitrarily change a client's programmatic data, including their WtW eligibility target group. Any executed changes to the client's programmatic data were permanent within the MIS system. The MIS system did not have any mechanism to track the changes and inform other OAI personnel of the changed data.

Personnel and non-personnel cost allocations were made to the respective client cost categories (*hard-to-employ* vs. *other eligibles*) based upon clients' designated eligibility status within the MIS at the time the allocation was executed.

We informed DePaul OAI management of this weakness. Management implemented formal procedures to ensure that changes to a WtW client's eligibility status were properly documented. Any change to a client's eligibility status was to be initiated by a case manager, approved by supervisory manager, and documented in the client's case file and in the MIS by appropriate personnel. However, the procedures did not include notifying the OAI Accountant of client eligibility changes which is critical for ensuring that WtW personnel and non-personnel cost allocations are correctly executed.

A sound system of internal control includes documenting critical programmatic changes, ensuring adequate segregation of duties, and establishing supervisory review and approval mechanisms.

Recommendations

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

- a. formalize subgrantee monitoring procedures;
- b. formalize QFSR reporting policies to ensure adequate documentation is maintained and QFSRs are reviewed prior to submission to ETA;
- c. ensure that MIS client eligibility category changes are only executed after an eligibility change is approved by a supervisor and documented in the client's case file; and
- d. ensure all OAI WtW staff receive periodic MIS output reports to verify client eligibility changes and to ensure that corresponding costs are properly adjusted prior to QFSR reporting.

Grantee Response

DePaul officials concurred with the finding. The OIG recommendations have been implemented. DePaul also terminated the WtW program as of April 15, 2001.

Auditor's Conclusion

Corrective action is not needed due to the termination of the grant.

EXHIBITS, SCHEDULES, AND APPENDICES

**DEPAUL UNIVERSITY
WELFARE-TO-WORK COMPETITIVE GRANT NO.
Y-6814-8-00-81-60**

**Schedule of Claimed Costs and Questioned Costs
For the Interim Period
July 1, 1998 through June 30, 2000**

| COST CATEGORY | COSTS | | REFERENCE |
|---|---------------------|-------------------|----------------------|
| | CLAIMED | QUESTIONED | |
| (A) Personnel | \$ 1,236,204 | \$ 0 | |
| (B) Fringe Benefits | 346,802 | 25,000 | Schedule A-4, Note 4 |
| (C) Travel | 35,947 | 2,116 | Schedule A-1 |
| (D) Equip./Tech. | 56,915 | *346 | Schedule A-2 |
| (E) Supplies | 31,082 | *375 | Schedule A-3 |
| (F) Contractual | 303,643 | 79,153 | Schedule A-4 |
| (G) Other | 285,805 | *56,986 | Schedule A-5 |
| Sub Total | 2,296,398 | *163,976 | |
| Ineligible Clients | | Ö 9,489 | Note 1 |
| Total Direct Cost | \$ 2,296,398 | \$ 173,465 | |
| Indirect Cost | 17,368 | 0 | |
| Total Adjustments (\$19,425 less \$87) | \$ 0 | \$ 19,338 | |
| Total Cost | \$ 2,313,766 | \$ 154,127 | |

Legend

* Each amount has been reduced by a cumulative total of \$19,425 as a result of additional data provided by DePaul officials subsequent to the release of the draft report.

Ö This amount has been increased by \$87 as a result of an overall reduction of non-personnel questioned costs (See Note 1 and Exhibit B).

Note 1: DePaul’s QFSR included \$9,576 of questioned costs in support of three clients found to be ineligible for WtW services (see table below). These three clients were served by DePaul’s OAI. The clients were determined ineligible because they either had not received TANF cash benefits or did not have any designated characteristics associated with long-term welfare dependence as required by 20 CFR Part 645. We calculated OAI’s cost per client served as \$3,192 (see **Exhibits B and C**).

| Ineligibles | Cost Per Client | Questioned Cost |
|-------------|-----------------|-----------------|
| 3 | \$ 3,192 | \$ 9,576 |

Grantee Response

DePaul officials agree that one client was ineligible. However, the remaining two clients are eligible. DePaul had exceeded planned enrollments and documentation can be provided for eligibility.

Auditor’s Conclusion

Additional source documentation to support the two clients’ eligibility was not provided by DePaul officials. Consequently, questioned costs remain unchanged with the following exception.

Because direct client costs could not be readily identified in DePaul’s accounting system, we calculated the average cost per client served using **Exhibits B and C**. As a result of DePaul officials providing additional data subsequent to the release of the draft report, previously questioned non-personnel costs were allowed. This results in an overall higher calculation of cost per client served. Questioned costs per ineligible client increased from \$3,163 to \$3,192 resulting in a net increase of \$87 for the three clients determined to be ineligible for the program.

**DEPAUL UNIVERSITY
WELFARE-TO-WORK COMPETITIVE GRANT NO.
Y-6814-8-00-81-60**

**Schedule of Detailed Questioned Costs - Travel
For the Interim Period
July 1, 1998 through June 30, 2000**

| DePaul Accounting System | | | OIG Sample Number | Amount Questioned | Note |
|--------------------------|----------------|-------------------|-------------------------|----------------------|------|
| Object Code | Fiscal Year | Account Number | | | |
| 5200 | 1999 | 5-20739 | 44 | \$ 968 | 1 |
| | | | 45 | 1,148 | 1 |
| Total | | | | \$ 2,116 | |

Note 1: OAI was unable to provide source documentation to support these amounts. Therefore, we have questioned these amounts in total because 29 CFR Part 95.21 (b)(2) and (7) requires that the accounting records be supported by source documentation.

Grantee Response

The grantee concurs with the finding.

Auditor's Conclusion

The questioned cost remains unchanged.

**DEPAUL UNIVERSITY
WELFARE-TO-WORK COMPETITIVE GRANT NO.
Y-6814-8-00-81-60**

**Schedule of Detailed Questioned Costs - Equipment
For the Interim Period
July 1, 1998 through June 30, 2000**

| DePaul Accounting System | | | OIG Sample Number | Amount Questioned | Note |
|--------------------------|-------------|-------------------|-------------------------|----------------------|------|
| Object Code | Fiscal Year | Account Number | | | |
| 2502 | 2000 | 5-20406 | 16 | \$ *346 | 1 |

Note 1: OAI was unable to provide source documentation to support this ProCard (University charge card) purchase. Therefore, we have questioned the amount in total because 29 CFR Part 95.21 (b)(2) and (7) requires that the accounting records be supported by source documentation.

Grantee Response

DePaul officials provided source documentation to substantiate the expenditure.

Auditor's Conclusion

The questioned cost is eliminated.

* This amount has been reduced to reflect additional data provided by DePaul officials subsequent to the release of the draft report.

**DEPAUL UNIVERSITY
WELFARE-TO-WORK COMPETITIVE GRANT NO.
Y-6814-8-00-81-60**

**Schedule of Detailed Questioned Costs - Supplies
For the Interim Period
July 1, 1998 through June 30, 2000**

| DePaul Accounting System | | | OIG Sample Number | Amount Questioned | Note |
|--------------------------|----------------|-------------------|-------------------------|----------------------|------|
| Object Code | Fiscal Year | Account Number | | | |
| 4900 | 2000 | 5-20739 | 48 | \$*131 | 1 |
| | | | 49 | 144 | 1 |
| | | 5-20408 | 62 | *100 | 2 |
| Total | | | | \$*375 | |

Note 1: For these items, the original expenses were charged to another account. A portion of the expenses was later reallocated through journal entries to the WtW account. These entries were selected as sample items. OAI was unable to provide source documentation to support these amounts. Therefore, we have questioned these amounts in total because 29 CFR Part 95.21 (b)(2) and (7) requires that the accounting records be supported by source documentation.

Grantee Response

DePaul officials provided source documentation to substantiate the expenditures.

Auditor's Conclusion

The questioned cost is eliminated for Sample No. 48. For Sample No. 49, DePaul officials provided a receipt from a Burbank, IL appliance store to support an August 1999 refrigerator and microwave purchase for M.O.S.T. class. Although the receipt indicates that the purchase was made using a DePaul OAI employee's ProCard, we cannot determine the benefit to the WtW program resulting from this purchase. Furthermore, the purchasing information (name, address, phone) on the receipt copy was either blank or illegible. The questioned cost of \$144 for Sample Item No. 49 remains unchanged.

* This amount has been reduced to reflect additional data provided by DePaul officials subsequent to the release of the draft report.

Schedule A-3 (continued)

Note 2: OAI was unable to provide source documentation to support this amount. Therefore, we have questioned this amount in total because 29 CFR Part 95.21 (b)(2) and (7) requires that the accounting records be supported by source documentation.

Grantee Response

DePaul officials provided source documentation to substantiate the expenditure.

Auditor's Conclusion

The questioned cost is eliminated.

**DEPAUL UNIVERSITY
WELFARE-TO-WORK COMPETITIVE GRANT NO.
Y-6814-8-00-81-60**

**Schedule of Detailed Questioned Costs - Contractual
For the Interim Period
July 1, 1998 through June 30, 2000**

| DePaul Accounting System | | | OIG Sample Number | Amount Questioned | Note |
|----------------------------------|----------------|-------------------|-------------------------|----------------------|------|
| Object Code | Fiscal Year | Account Number | | | |
| Professional Services 3400 | 1999 | 5-20739 | 15 | \$ 100 | 1 |
| | | | 24 | 5,000 | 2 |
| | | | 26 | 5,000 | 3 |
| | 2000 | 5-20739 | 43 | 10,000 | 3 |
| Subcontracts 3410 | 1999 | 5-20739 | Judgmental | 59,053 | 4 |
| Fringe Benefits 2100 | 1999 | 5-20739 | Judgmental | 25,000 | 4 |
| Total | | | | \$ 104,153 | |

Note 1: OAI reimbursed a student consultant \$100 for travel expenses. However, OAI was unable to provide source documentation to support the amount reimbursed. Therefore, we have questioned the \$100 in total because 29 CFR Part 95.21 (b)(2) and (7) requires that accounting records be supported by source documentation.

Grantee Response

DePaul officials provided source documentation to substantiate the expenditures.

Auditor's Conclusion

The source documentation consisted of a voucher check requisition, e-mail, and invoice for the payment of travel expenses incurred for a DePaul student's evaluation project of welfare clients. The e-mail originating from OAI indicates that the student's travel expenses included transportation from home (Bridgeview, IL) to class and return as well as telephone costs associated with client outreach. However, the provided documentation did not include any itemization of individual trips or telephone expenses. Consequently, we are unable to determine the reasonableness of the \$100 travel expense. The questioned cost remains unchanged.

Note 2: OAI was unable to provide source documentation to support this amount. Therefore, we have questioned this amount in total because 29 CFR Part 95.21 (b)(2) and (7) requires that the accounting records be supported by source documentation.

Grantee Response

DePaul officials provided source documentation to substantiate this expenditure and the expenditures associated with Note 3.

Auditor's Conclusion

We were unable to verify that the provided documentation was the source documentation for this sampled item. The questioned cost remains unchanged (see Note 3 below).

Note 3: The two items questioned represent financial contributions made to the Amate House by OAI in exchange for volunteers assisting OAI. The mission of the Amate House is to enhance the faith development and leadership of young adult Catholics. This is accomplished by providing volunteers experiences of direct service to those in need while participating in community and sharing in opportunities for educational and spiritual growth. The financial agreements between Amate House and DePaul OAI merely state that OAI will pay \$10,000 for the services of a volunteer for approximately ten months.

The Attachment to OMB Circular A-21 at C 3 states in part that . . . *A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefor, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the*

Schedule A-4 (continued)

reasonableness of a cost are: (a) whether or not the cost is a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement;...

OAI did not provide any documentation as to what types of services were provided by the volunteers nor the actual hours worked on grant specific activities. Therefore, we have questioned the amounts claimed in total.

Grantee Response

DePaul officials provided source documentation to substantiate these expenditures and the expenditure associated with Note 2. The officials believe they have provided adequate support.

Auditor's Conclusion

OAI did not provide any documentation as to what types of specific services were provided by the volunteers nor the actual hours worked on grant specific activities. Therefore, the questioned cost remains unchanged.

Note 4: We tested three transactions for Alternative Sentencing Approach Program (ASAP) as follows:

| Description | Amount | Reference |
|-----------------|------------------|-----------|
| Subcontract | \$ 47,499 | a |
| Subcontract | 11,554 | b |
| Sub Total | 59,053 | |
| Fringe Benefits | 25,000 | c |
| Total | \$ 84,053 | |

- a. The amount claimed was based on an invoice submitted by ASAP for salaries, fringe benefits and various operating expenses including trainee stipends. We requested the source documentation (listing of authorized personnel, time sheets, vendor invoices, canceled checks/vouchers, etc.) for these charges. However, OAI was only able to provide partial documentation for a small portion (approximately \$10,000) of the charges. However, the documentation was not sufficient to determine that the costs were allowable and reasonable. OAI did not provide any documentation

Schedule A-4 (continued)

for the remaining costs of approximately \$37,500. Therefore, we have questioned the \$47,499 claimed in total because 29 CFR Part 95.21 (b)(2) and (7) requires that the accounting records be supported by source documentation.

- b. We requested the source documentation (listing of authorized personnel, time sheets, vendor invoices, canceled checks/vouchers, etc.) for the \$11,554 claimed based on an invoice submitted by ASAP. OAI did not provide any source documentation to support these amounts. Therefore, we have questioned the \$11,554 in total because 29 CFR Part 95.21 (b)(2) and (7) requires that the accounting records be supported by source documentation.
- c. OAI included a \$25,000 charge under the grant as fringe benefits. However, our review disclosed that the amount represented a cash advance to the subcontractor ASAP. ASAP ceased operations prior to returning the cash advance. Therefore, we have questioned the \$25,000 in total.

Grantee Response

DePaul officials put forth a good faith reasonable effort to obtain supporting documentation for payments to ASAP (\$84,053) which suddenly ceased operations. DePaul took steps that a reasonably prudent business person would take to ensure that ASAP was a responsible partner.

Auditor's Conclusion

The grantee did not provide source documentation to substantiate the \$84,053 paid to ASAP. Therefore, the questioned cost remains unchanged.

**DEPAUL UNIVERSITY
WELFARE-TO-WORK COMPETITIVE GRANT NO.
Y-6814-8-00-81-60**

**Schedule of Detailed Questioned Costs - Other
For the Interim Period
July 1, 1998 through June 30, 2000**

| DePaul Accounting System | | | OIG Sample Number | Amount Questioned | Note |
|--------------------------|----------------|-------------------|----------------------|----------------------|------|
| Object Code | Fiscal Year | Account Number | | | |
| 2501 | 1999 | 5-20739 | 4 | \$ 2,918 | 1 |
| 3180 | 1999 | 5-20739 | 10 | *3,702 | 2 |
| | | | 11 | 646 | 3 |
| | 2000 | 5-20408 | 12 | 115 | 4 |
| | | 5-20406 | 8 | 2,213 | 5 |
| 3190 | 1999 | 5-20739 | 13 | 2,281 | 6 |
| | 2000 | 5-20739 | 12 | *599 | 7 |
| | | | 13 | *535 | 7 |
| 3240 | 2000 | 5-20739 | 41 | *2,444 | 8 |
| | | 5-20408 | 17 | *746 | 8 |
| 4530 | 1999 | 5-20739 | 29 | *3,080 | 1 |
| | | | 32 | *2,460 | 1 |
| | | | 33 | *1,620 | 1 |
| 4600 | 2000 | 5-20739 | 24 | *2,100 | 1 |
| | | 5-20408 | 4 | *900 | 1 |
| 9060 | 2000 | 5-20406 | 10 | *662 | 9 |
| 4310 | 1999 | 5-20739 | Judgmental | 26,190 | 10 |
| | 2000 | 5-20739 | Judgmental | 2,175 | 10 |
| | 2000 | 5-20408 | Judgmental | 1,575 | 10 |
| 3410 | 2000 | 5-20408 | Judgmental | 25 | 10 |
| Total | | | | *\$56,986 | |

* This amount has been reduced to reflect additional data provided by DePaul officials subsequent to the release of the draft report.

Schedule A-5 (continued)

Note 1: We requested the source documentation (vendor invoice, canceled check/voucher, etc.) for these charges. However, OAI was unable to provide the necessary documentation. Therefore, we have questioned the amounts in total because 29 CFR Part 95.21(b)(2) and (7) requires that the accounting records be supported by source documentation.

Grantee Response

DePaul officials provided source documentation to substantiate most of these expenditures.

Auditor's Conclusion

The questioned cost is eliminated with the exception of \$2,918 for the reallocation of a "furniture and fixtures" pool from the OAI discretionary account 6-25315. DePaul officials did provide an updated expenditure re-allocation summary of the OAI discretionary account to the WtW accounts. However, DePaul officials did not provide source documentation to substantiate the original expenditure(s) charged and pooled in the OAI discretionary account. We cannot verify that the \$2,918 reallocation of furniture and fixtures is supported by source documentation or that this amount was removed from the WtW account expenditures through the updated re-allocation summary.

Consequently, questioned costs are reduced to \$2,918.

Note 2: Several communication expenses were pooled into OAI's discretionary account 6-25315 and were then allocated to OAI's multiple funding sources. We reconciled the total pooled expense to the allocated amounts. Due to the number of individual items included in the pool, it was agreed that we would request documentation for the largest and smallest expense items within the pool. If either item was found to be unsupported or unallowable, the entire amount would be questioned. OAI was unable to provide the source documentation for the largest expense charged to the pool. Therefore, the amount is questioned in total because 29 CFR Part 95.21(b)(2) and (7) requires that the accounting records be supported by source documentation.

Grantee Response

DePaul officials provided source documentation to substantiate the largest expense charged to the discretionary account.

Auditor's Conclusion

The questioned cost is eliminated.

Note 3: Several communications expenses were pooled into OAI's discretionary account and were then allocated to OAI's multiple funding sources. We reconciled the total pooled expense to the allocated amounts which came to \$9,312. However, we determined that \$3,951 of communication charges incurred prior to July 1, 1998, the start of the grant period, were included in the pool and allocated to the WtW accounts. Our sampled expense was 16.36% of the pooled expenses. Therefore, we question \$646 (16.36% of \$3,951) since this portion of the sampled expense was a pre-award expense. Pre-award expenditures are unallowable in accordance with 29 CFR Part 95.28.

Grantee Response

DePaul officials provided an updated re-allocation expenditure summary of the OAI discretionary account to the WtW accounts. As a result of the updated re-allocation, OAI discovered other discretionary expenditures that were omitted from the original re-allocation which offset the pre-award expenditures that were improperly charged to the WtW accounts.

Auditor's Conclusion

Although DePaul officials did provide an updated expenditure re-allocation summary from the OAI discretionary account to the WtW accounts, we cannot verify that the amount in question was removed from the WtW account expenditures without performing a complete reconstruction of all costs charged and pooled in the OAI discretionary account and then re-allocated to all OAI funding sources. Consequently, the question cost remains unchanged.

Note 4: A portion of a \$500 original charge to the 70% participant account was reallocated through a journal entry resulting in the sample item. However, OAI was unable to provide the necessary documentation. Therefore, we have questioned the amount in total because 29 CFR Part 95.21 (b)(2) and (7) requires that the accounting records be supported by source documentation.

Grantee Response

DePaul officials provided source documentation to substantiate this expenditure.

Auditor's Conclusion

DePaul officials provided a credit card payment processing request, dated April 19, 2000, and an April 22, 2000 invoice to substantiate this telephone expense. However, the invoice indicated that the credit card payment was not applied to the outstanding balance. Therefore, we have no assurance that the payment was processed. Consequently, the questioned cost remains unchanged.

- Note 5:** This item was the result of a reimbursement to DePaul's telecommunications department. However, OAI was unable to provide the necessary documentation. Therefore, we have questioned the amount in total because 29 CFR Part 95.21 (b)(2) and (7) requires that the accounting records be supported by source documentation.

Grantee Response

DePaul officials provided an internal memorandum authorizing an interdepartmental transfer of funds for a digital line card.

Auditor's Conclusion

DePaul officials did not provide a vendor invoice which would substantiate the amount of this interdepartmental transfer. Consequently, the questioned cost remains unchanged.

- Note 6:** Several photocopy expenses were pooled into OAI's discretionary account and were then allocated to OAI's multiple funding sources. We reconciled the total pooled expense to the allocated amounts which came to \$11,175. However, we determined that \$6,671 of photocopy charges incurred prior to July 1, 1998, the start of the grant period, were included in the pool and allocated to the WtW accounts. Our sampled expense was 34.2% of the pooled expenses. Therefore, we question \$2,281 (34.2% of \$6,671) since this portion of the sampled expense was a pre-award expense. Pre-award expenditures are unallowable in accordance with 29 CFR Part 95.28.

Grantee Response

DePaul officials provided an updated re-allocation expenditure summary of the OAI discretionary account to the WtW accounts. As a result of the updated re-allocation, OAI discovered other discretionary expenditures that were omitted

from the original re-allocation which offset the pre-award expenditures that were improperly charged to the WtW accounts.

Auditor's Conclusion

Although DePaul officials did provide an updated expenditure re-allocation summary from the OAI discretionary account to the WtW accounts, we cannot verify that the amount in question was removed from the WtW account expenditures without performing a complete reconstruction of all costs charged and pooled in the OAI discretionary account and then re-allocated to all OAI funding sources. Consequently, the questioned cost remains unchanged.

Note 7: These expenses were the result of copier costs in support of Partners in Hope. OAI was unable to provide any documentation as to how the amounts were calculated, the basis for the calculations, work order, or justification to support the expenses. Therefore, we have questioned the expenses in total because 29 CFR Part 95.21(b)(2) and (7) requires that the accounting records be supported by source documentation.

Grantee Response

DePaul officials provided source documentation to substantiate these expenditures.

Auditor's Conclusion

The questioned cost is eliminated.

Note 8: The original charges were accumulated in the OAI discretionary account and a portion was allocated to the WtW accounts through journal entries. Due to the number of individual items included in the pool, it was agreed that we would request documentation for the largest and smallest expense items within the pool. If either item was found to be unsupported or unallowable, the entire amount would be questioned. OAI was unable to provide the source documentation for the smallest expense charged to the pool. Therefore, these allocated costs are questioned in total because 29 CFR Part 95.21(b)(2) and (7) requires that the accounting records be supported by source documentation.

Grantee Response

DePaul officials provided source documentation to substantiate the smallest expense charged to the discretionary account.

Auditor's Conclusion

The questioned cost is eliminated.

Note 9: This expense was the result of a reimbursement to DePaul's Network and Telecommunications department. We requested the source documentation (vendor invoice, canceled check/voucher, etc.) for these charges. However, OAI was unable to provide the necessary documentation. Therefore, we have questioned the amount in total because 29 CFR Part 95.21(b)(2) and (7) requires that the accounting records be supported by source documentation.

Grantee Response

DePaul officials provided source documentation to substantiate the expenditure.

Auditor's Conclusion

The questioned cost is eliminated.

Note 10: From September 1, 1998, through August 19, 1999, OAI provided cash stipends to WtW clients for meeting certain employment benchmarks. Cash stipends are not included as an allowable activity in 20 CFR Part 645.220 and are considered unallowable by ETA as documented by AA12 of the Questions and Answers regarding Allowable Activities posted on their WtW website. Therefore, we question the costs of these stipends.

Grantee Response

Cash stipends paid to clients (\$29,965) should be allowed because the stipends were included in their grant proposal which was reviewed, negotiated, and approved by ETA.

Auditor's Conclusion

Cash stipends can only be allowed by the Grant Officer. Questioned costs remain unchanged.

**DEPAUL UNIVERSITY
WELFARE-TO-WORK COMPETITIVE GRANT NO.
Y-6814-8-00-81-60**

Schedules of Cost Per Client Served By Location

| OVERALL COST PER CLIENT SERVED CALCULATION | | |
|---|---------------------|--|
| Description | Amount | Reference |
| Total QFSR Claimed Expenditures | \$ 2,313,766 | Appendix A |
| LESS: Non-Personnel Questioned Costs | 144,551 | Exhibit A, Sub Total (after adjustment) |
| Allowable Costs Per Audit | \$ 2,169,215 | |
| | | |
| Total Claimed WtW Clients Served | 802 | Appendix A |
| LESS: Clients Ineligible for WtW Program | 9 | Exhibit C |
| Eligible WtW Clients Per Audit | 793 | |
| <p>Allowable Costs per Audit ÷ Eligible Clients Per Audit = Cost Per WtW Served Client</p> <p>\$2,169,215 ÷ 793 = \$2,735</p> | | |

| DEPAUL UNIVERSITY OFFICE OF APPLIED INNOVATION'S (OAI) COST PER CLIENT SERVED CALCULATION | | |
|--|---------------------|------------------|
| Description | Amount | Reference |
| Allowable Costs Per Audit | \$ 2,169,215 | Table above |
| LESS: Chicago Lighthouse for the Blind billing | 40,347 | page 18 |
| Allowable Costs at OAI | \$ 2,128,868 | |
| Divided By: Total OAI Clients Served | 667 | page 5 |
| Audited Cost Per DePaul OAI WtW Client Served | \$ 3,192 | |

**DEPAUL UNIVERSITY
WELFARE-TO-WORK COMPETITIVE GRANT NO.
Y-6814-8-00-81-60**

Schedule of Ineligible Clients

| Sample No. | Category | Location | Criteria | Reason for Ineligibility Determination |
|-------------------|-----------------|-----------------|---------------------|--|
| 3 | a | DePaul | 20 CFR Part 645.212 | non-receipt of TANF |
| 274 | c | DePaul | 20 CFR Part 645.213 | no characteristics of long-term welfare dependence |
| 479 | c | DePaul | 20 CFR Part 645.213 | no characteristics of long-term welfare dependence |
| 676 | c | YMCA | 20 CFR Part 645.213 | non-receipt of TANF |
| 681 | d | YMCA | 1999 Amendments | criteria not met for custodial parent with income below the poverty line |
| 690 | d | YMCA | 1999 Amendments | criteria not met for custodial parent with income below the poverty line |
| 706 | d | YMCA | 1999 Amendments | custodial parent status cannot be determined |
| 718 | b | YMCA | 1999 Amendments | non-receipt of TANF |
| 775 | a | YMCA | 20 CFR Part 645.212 | non-receipt of TANF |

Category Legend

- a – Hard-to-employ with eligibility determination date before January 1, 2000
- b – Hard-to-employ with eligibility determination date after January 1, 2000
- c – Other eligible with eligibility determination date before January 1, 2000
- d – Other eligible with eligibility determination date after January 1, 2000

**DEPAUL UNIVERSITY
WELFARE-TO-WORK COMPETITIVE GRANT NO.
Y-6814-8-00-81-60**

Schedule of Misclassified Clients

(other eligibles reported as *hard-to-employ*)

CRITERIA: 20 CFR Part 645.212, dated November 18, 1997

| Sample No. | Category | Location | Reason for Mis-classification |
|------------|----------|----------|--|
| 5 | a | DePaul | less than 30 months cash assistance / no TABE test / poor work history cannot be determined |
| 16 | a | DePaul | no TABE test / substance abuse treatment not necessary |
| 57 | a | DePaul | graduated from Collins High School / substance abuse treatment not necessary |
| 59 | a | DePaul | graduated from Jones High School / substance abuse treatment not necessary |
| 63 | a | DePaul | no TABE test / substance abuse treatment not necessary |
| 64 | a | DePaul | no TABE test & graduated from Hyde Park Career Academy / substance abuse treatment not necessary |
| 69 | a | DePaul | graduated from Philips High School / substance abuse treatment not necessary |
| 71 | a | DePaul | graduated from Crane High School / substance abuse treatment not necessary |
| 75 | a | DePaul | graduated or obtained GED from Hirsch High School / substance abuse treatment not necessary / poor work history cannot be determined |
| 84 | a | DePaul | no TABE test / substance abuse treatment not necessary |
| 85 | a | DePaul | graduated from Tilden High School / substance abuse treatment not necessary |
| 87 | a | DePaul | obtained GED / substance abuse treatment not necessary |
| 91 | a | DePaul | obtained GED from Truman College & no TABE test / substance abuse treatment not necessary |
| 92 | a | DePaul | no TABE test / substance abuse treatment not necessary |

**DEPAUL UNIVERSITY
WELFARE-TO-WORK COMPETITIVE GRANT NO.
Y-6814-8-00-81-60**

Schedule of Misclassified Clients

(other eligibles reported as *hard-to-employ*)

CRITERIA: 20 CFR Part 645.212, dated November 18, 1997

| Sample No. | Category | Location | Reason for Mis-classification |
|------------|----------|----------|--|
| 101 | a | DePaul | graduated from Crane High School / substance abuse treatment not necessary |
| 104 | a | DePaul | graduated from high school (not specified) / substance abuse treatment not necessary |
| 115 | a | DePaul | graduated from Corliss High School / substance abuse treatment not necessary |
| 117 | a | DePaul | obtained GED / substance abuse treatment not necessary |
| 121 | a | DePaul | graduated from Calumet High School / substance abuse treatment not necessary |
| 123 | a | DePaul | substance abuse treatment not necessary / poor work history cannot be determined |
| 137 | a | DePaul | obtained GED & no TABE test / substance abuse treatment not necessary |
| 138 | a | DePaul | graduated from Collins High School / substance abuse treatment not necessary |
| 151 | a | DePaul | graduated from Austin High School / substance abuse treatment not necessary |
| 162 | a | DePaul | substance abuse treatment not necessary / poor work history cannot be determined |
| 164 | a | DePaul | graduated from Collins High School / substance abuse treatment not necessary |
| 167 | a | DePaul | less than 30 months cash assistance |
| 187 | a | DePaul | graduated from Englewood High School / substance abuse treatment not necessary |

**DEPAUL UNIVERSITY
WELFARE-TO-WORK COMPETITIVE GRANT NO.
Y-6814-8-00-81-60**

Schedule of Misclassified Clients

(other eligibles reported as *hard-to-employ*)

CRITERIA: 20 CFR Part 645.212, dated November 18, 1997

| Sample No. | Category | Location | Reason for Mis-classification |
|------------|----------|----------|---|
| 200 | a | DePaul | No TABE test / substance abuse treatment not necessary |
| 213 | a | DePaul | less than 30 months cash assistance / client application did not request high school or GED information / need for substance abuse treatment not documented |
| 222 | a | DePaul | graduated from high school (not specified) / substance abuse treatment not necessary |
| 231 | a | DePaul | no TABE test and graduated from high school (not specified) / substance abuse treatment not necessary |
| 232 | a | DePaul | less than 30 months cash assistance |
| 233 | a | DePaul | substance abuse treatment not necessary / poor work history cannot be determined |
| 253 | a | DePaul | less than 30 months cash assistance |
| 262 | a | DePaul | no TABE test / substance abuse treatment not necessary |
| 269 | a | DePaul | graduated from Orr High School / substance abuse treatment not necessary |
| 293 | a | DePaul | less than 30 months cash assistance |
| 318 | a | DePaul | less than 30 months cash assistance |
| 334 | a | DePaul | graduated from Crane High School / substance abuse treatment not necessary |
| 344 | a | DePaul | substance abuse treatment not necessary / poor work history could not be determined |
| 348 | a | DePaul | graduated from high school (not specified) / substance abuse treatment not necessary |

**DEPAUL UNIVERSITY
WELFARE-TO-WORK COMPETITIVE GRANT NO.
Y-6814-8-00-81-60**

Schedule of Misclassified Clients

(other eligibles reported as hard-to-employ)

CRITERIA: 20 CFR Part 645.212 (dated November 18, 1997) and 1999 Amendments

| Sample No. | Category | Location | Reason for Mis-classification |
|------------|----------|----------------------------------|--|
| 351 | a | DePaul | graduated from high school or obtained GED (not specified) / need for substance abuse treatment not documented |
| 369 | a | DePaul | obtained GED from Hilliard Adult Education Center / substance abuse treatment not necessary |
| 382 | a | DePaul | graduated from Bowen High School / substance abuse treatment not necessary |
| 437 | a | DePaul | less than 30 months cash assistance |
| 486 | a | DePaul | less than 30 months cash assistance |
| 639 | b | DePaul | less than 30 months cash assistance |
| 733 | a | YMCA | less than 30 months cash assistance |
| 758 | b | YMCA | non-receipt of TANF, qualifies as custodial parent with income below the poverty line |
| 759 | b | YMCA | less than 30 months cash assistance |
| 769 | b | YMCA | less than 30 months cash assistance |
| 784 | b | YMCA | non-receipt of TANF, qualifies as custodial parent with income below the poverty line |
| 795 | a | Chicago Lighthouse for the Blind | less than 30 months cash assistance / graduated from Bowen High School / need for substance abuse treatment not documented |
| 798 | a | Chicago Lighthouse for the Blind | graduated from Maine West High School / need for substance abuse treatment not documented |

Category Legend

- a – Hard-to-employ with eligibility determination date before January 1, 2000
- b – Hard-to-employ with eligibility determination date after January 1, 2000

DEPAUL UNIVERSITY

Interim Cumulative Quarterly Financial Status Report
Reporting Period 06/30/2000

U. S. DEPARTMENT OF LABOR - Employment and Training Administrative
 WTW COMPETITIVE GRANT
 Cumulative Quarterly Financial Status Report -ETA 9068-1

GRANT NO Y68148008160

REPORTING PERIOD 06/30/2000

Date Submitted 08/16/2000

Reporting Grantee Information

Grantee Contact Information

Grantee Name: DEPAUL UNIVERSITY

Address:
 City: State: IL Zip

Address: DePaul University
 City: State: Zip:
 Phone: 312-362-6024

FY 1998

Section I. GRANT TOTAL

| | |
|--|---------|
| 1. Federal Grant | 5000000 |
| 2. Federal Expenditures | 2313766 |
| 3. Federal Administrative Expenditures (15% Max) | 138813 |
| 4. Federal Technology/Computerization Expenditures | 77172 |
| 5. Expenditures for: | |
| a. REQUIRED BENEFICIARIES (70% Minimum) | 1573361 |
| b. OTHER ELIGIBLES (30% Maximum) | 740405 |
| 6. Unliquidated Obligations | 1011049 |

Section II EXPENDITURES BY ACTIVITY

| | |
|--|---------|
| 7. Community Service | |
| 8. Work Experience | |
| 9. Job Creation Employment Wage Subsidies | |
| a. Public | |
| b. Private | |
| 10. On-the-Job Training | |
| 11. Job Readiness Services | |
| a. Vouchers | |
| b. Contracts | |
| 12. Job Placement Services | |
| a. Vouchers | |
| b. Contracts | |
| 13. Post Employment Services | |
| a. Vouchers | |
| b. Contracts | |
| 14. Job Retention Services and Support Services | 1573335 |
| 15. Intake, Assessment, Eligibility Det. & Case Mgmt | 524445 |
| 16. Total | 2097780 |

Section III. FEDERAL PROGRAM INCOME

| | |
|--------------|--|
| 17. Earned | |
| 18. Expended | |

Section IV. FEDERAL PARTICIPANT SUMMARY

| | |
|--|-----|
| 19. Total Participants Served | |
| (1) Required Beneficiaries (70% of \$ Minimum) | 551 |
| (2) Other Eligibles (30% of \$ Maximum) | 251 |
| 20. Total Participants Terminated | |
| (1) Required Beneficiaries (70% of \$ Minimum) | |
| (2) Other Eligibles (30% of \$ Maximum) | |
| 21. Place in Unsubsidized Employment | |
| a. Great than or Equal to 30 Hours Per Week | 539 |
| b. Less than 30 Hours Per Week | |
| 22. Employed In Unsubsidized Employment When Entering WtW | |
| a. Great than or Equal to 30 Hours Per Week | |
| b. Less than 30 Hours Per Week | |
| 23. Placed In Subsidized Employment | |
| a. Great than or Equal to 30 Hours Per Week | |
| b. Less than 30 Hours Per Week | |
| 24. Retained 6 mos (2 qtrs) in Unsubsidized Employment | 240 |
| 25. Earnings gained in 6 mos (2 qtrs) following Placement in Unsubsidized Employment | |
| a. Sum of Earnings of those Retained in 2nd Subsequent Qtr. (2nd Qtr. following Base Qtr.) | 8 |
| b. Sum of Earnings of Same Group in Base Qtr | 8 |

Section V. REMARKS

Principal Criteria

The following criteria were referred to in this audit report:

20 CFR Part 645

The U.S. Department of Labor (DOL), Employment and Training Administration (ETA) issued Title 20 CFR Part 645, Welfare-to-Work Grants; Interim Rule, on November 18, 1997. These regulations provide the administrative framework for the WtW program.

20 CFR Part 645.211 (a) states in part:

At least 70 percent of the WtW funds allotted to or awarded to an operating entity...must be spent to benefit hard-to-employ individuals, as described in § 645.212 of this part.

20 CFR Part 645.211 (b) states in part:

Not more than 30 percent of the WtW funds allotted to or awarded to an operating entity...may be spent to assist individuals with long-term welfare dependence characteristics, as described in § 645.213 of this part....

20 CFR Part 645.212 (a) states in part:

An individual is eligible to be served under the 70 percent provision if (s)he meets all three of the criteria listed in paragraphs (a) (1), (2), and (3) of this section:

- (1) The individual is receiving TANF assistance; and*
- (2) Barriers to employment – at least two of the three following barriers to employment must apply to the individual:*
 - (i) Has not completed secondary school or obtained a certificate of general equivalency, and has low skills in reading or mathematics. At least 90 percent of individuals determined to have low skills in reading or mathematics must be proficient at the 8.9 grade level or below.*
 - (ii) Requires substance abuse treatment for employment.*
 - (iii) Has a poor work history. At least 90 percent of individuals determined to have a poor work history must have worked no more than 3 consecutive months in the past 12 calendar months; and*
- (3) Length of receipt of TANF assistance – the individual must be a long-term recipient, meeting one of the following two criteria:*
 - (i) Has received assistance under the State TANF program, and/or its predecessor program, for at least 30 months. The months do not have to be consecutive; or*

- (ii) *Will become ineligible for assistance within 12 months due to either Federal or State-imposed durational time limits on receipt of TANF assistance....*

20 CFR Part 645.213 (a) states:

An individual is eligible to be served under the 30 percent provision if (s)he meets both criteria listed in paragraphs (a) (1) and (2) of this section:

- (1) *The individual is receiving TANF assistance; and*
- (2) *The individual has characteristics associated with, or predictive of, long-term welfare dependence, such as having dropped out of school, teenage pregnancy, or having a poor work history. States, in consultation with the operating entity, may designate additional characteristics associated with, or predictive of, long-term welfare dependence.*

20 CFR Part 645.220 states in part:

Entities operating WtW projects may use WtW funds for the following:

- (a) *Job readiness activities....*
- (b) *Employment activities which consist of any of the following: (1) Community service programs; (2) Work experience programs; (3) Job creation through public or private sector employment wage subsidies; and (4) On-the-job training.*
- (c) *job placement services....*
- (d) *Post employment services...Post employment services include... (1) Basic educational skills training; (2) Occupational skills training; (3) English as a second language training; and (4) Mentoring.*
- (e) *Job retention services and support services which are provided after an individual is placed in a job readiness activity,...in one of the employment activities,...or in any other subsidized or unsubsidized job....Job retention and support services include...such services as (1) Transportation assistance; (2) Substance abuse treatment (except WtW funds may not be used to provide medical treatment); (3) Child care assistance; (4) Emergency or short term housing assistance; and (5) Other supportive services.*
- (f) *Individual development accounts....*
- (g) *Intake, assessment, eligibility determination, development of an individualized service strategy, and case management may be incorporated in the design of any of the allowable activities listed in paragraphs (a) through (f) of this section....*

ETA issued Questions and Answers for Allowable Activities at wtw.doleta.gov/q&a/allowable.html. Question and Answer AA12 states in part:

“Since WtW participants do not receive direct cash assistance from the WtW program, they can not be provided with direct cash incentives under the WtW grant....”

- - -

Welfare-to-Work and Child Support Amendments of 1999

As part of the Consolidated Appropriations Act for Federal Fiscal Year 2000, the “Welfare-to-Work and Child Support Amendments of 1999” (1999 Amendments) were enacted. These amendments made several significant changes to the WtW grant programs administered by DOL. As of June 30, 2000, DOL - ETA had not codified these changes within 20 CFR Part 645. However, ETA had prepared a summary of the 1999 Amendments on their WtW web site; “wtw.doleta.gov/laws-regs/99amendsum.htm”. We are citing this summary for eligibility changes which became effective January 1, 2000:

“The 70% Eligibility Criteria” states in part:

The 1999 amendments remove the requirement that long-term TANF recipients must meet additional barriers to employment in order to be eligible for WtW. Therefore, TANF recipients are eligible for WtW if they have received assistance for at least 30 months (whether consecutive or not), if they are within 12 months of reaching their TANF time limit, or if they have exhausted their receipt of TANF due to time limits.

In addition..., noncustodial parents are eligible if:

- (1) they are unemployed, underemployed, or having difficulty paying child support obligations;*
- (2) their minor children are eligible for, or receiving TANF benefits (with a priority for parents with children who are long-term recipients), received TANF benefits during the preceding year, or are eligible for, or receiving assistance under the Food Stamps program, the Supplemental Security Income program, Medicaid, or the Children’s Health Insurance Program: AND*
- (3) they enter into a personal responsibility contract under which they commit to cooperate in establishing paternity and paying child support, and participating in services to increase their employment and earnings, and to support their children. The 1999 amendments also require grantees to consult with domestic violence organizations in developing these projects to serve noncustodial parents.”*

“The 30% Eligibility Requirement” states:

In general, the 30% eligibility criteria are retained, except for noncustodials. In addition, the 1999 amendments add several categories of eligibility under the 30% provision, including

- 1) TANF recipients who have significant barriers to self-sufficiency under criteria established by the PIC,*
- 2) youth aged 18 to 25 who have “aged out” of foster care, and*

- 3) *custodial parents with incomes below the poverty line.*

Noncustodial parents are no longer included under the 30 percent provision, but may be served under the general eligibility provisions [70% criteria] described above.”

- - -

29 CFR Part 95

The uniform administrative requirements for Federal grants and agreements awarded to institutions of higher education, hospitals, and other non-profit organizations are set forth in OMB Circular A-110 which was codified by DOL at 29 CFR Part 95.

29 CFR Part 95.21 (b) states in part:

Recipients' financial management systems shall provide for the following:

- (1) *Accurate, current, and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements....*
- (2) *Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest....*
- (7) *Accounting records including cost accounting records that are supported by source documentation.*

29 CFR Part 95.28 states:

Where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by DOL.

29 CFR Part 95.40 states in part:

Sections 95.41 through 95.48 set forth standards for use by recipients in establishing procedures for the procurement of supplies and other expendable property, equipment, real property and other services with Federal funds. These standards are furnished to ensure that such materials and services are obtained in an effective manner and in compliance with the provisions of applicable Federal statutes and executive orders....

29 CFR Part 95.42 states:

The recipient shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts. No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, any member of his or her immediately family, his or her partner, or an organization which employs or is about to employ any of the parties indicated

herein, has a financial or other interest in the firm selected for an award. The officers, employees, and agents of the recipient shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors, or parties to subagreements. However, recipients may set standards for situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value. The standards of conduct shall provide for disciplinary actions to be applied for violations of such standards by officers, employees, or agents of the recipient.

29 CFR Part 95.43 states in part:

All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade....

29 CFR Part 95.44 (a) states in part:

All recipients shall establish written procurement procedures. These procedures shall provide for, at a minimum, that paragraphs (a)(1), (a)(2), and (a)(3) of this section apply.

- (1) Recipients shall avoid purchasing unnecessary items.*
- (2) Where appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economical and practical procurement for the Federal Government.*
- (3) Solicitations for goods and services shall provide for all of the following: (i) A clear and accurate description of the technical requirements for the material, product or service to be procured... (ii) Requirements which the bidder/offeror must fulfill and all other factors to be used in evaluating bids or proposals. (iii) A description, whenever practicable, of technical requirements in terms of functions to be performed or performance required, including the range of acceptable characteristics or minimum acceptable standards....*

29 CFR Part 95.44 (b) states in part:

Positive efforts shall be made by recipients to utilize small businesses, minority-owned firms, and women's business enterprises, whenever possible....

29 CFR Part 95.44 (c) states in part:

The type of procuring instruments used (e.g., fixed price contracts, cost reimbursable contracts, purchase orders, and incentive contracts) shall be determined by the recipient but shall be appropriate for the particular procurement....The "cost-plus-a-percentage-of-cost" or "percentage of construction cost" methods of contracting shall not be used."

29 CFR Part 95.44 (d) states in part:

Contracts shall be made only with responsible contractors who possess the potential ability to perform successfully under the terms and conditions of the proposed procurement. Consideration

shall be given to such matters as contractor integrity, record of past performance, financial and technical resources or accessibility to other necessary resources....

29 CFR Part 95.45 states:

Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability.

29 CFR Part 95.46 states:

Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price.

29 CFR Part 95.51 (a) states in part:

Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award....

- - -

OMB Circular A-21

This Circular establishes principles for determining costs applicable to grants, contracts, and other agreements with educational institutions.

Section C. Basic Considerations. 3. Reasonable Costs states in part:

A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefor, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the reasonableness of a cost are: (a) whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement;...

DEPAUL UNIVERSITY

Response to Draft Report

DEPAUL
UNIVERSITY



Office of the Controller
1 East Jackson Boulevard
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June 8, 2001

**U. S. Department of Labor
Office of Inspector General
230 South Dearborn Street
Chicago, Illinois 60604**

Attn: Mr. Preston Firmin, Regional Inspector General for Audit

Dear Sir:

Enclosed find a response to your Audit Report No. 05-01-003-03-386, of DePaul University's Office of Applied Innovation's Welfare-to-Work Grant Program, Agreement No. Y-6814-8-00-81-60, covering the period from July 1, 1998 to June 30, 2000.

If you have questions, please contact Bonnie Hirsch, Controller at (312) 362-6760 or Mike Marback, Director of Internal Audit at (312) 362-8392.

Sincerely,

A handwritten signature in blue ink that reads "Bonnie Hirsch".

**Bonnie Hirsch
Controller - DePaul University**

A handwritten signature in blue ink that reads "Michael Marback".

**Michael Marback
Director of Internal Audit - DePaul University**

Cc. Susan Wallace, Vice President for Finance – DePaul University

SUMMARY
DePaul University
Response to Findings and Recommendations
OIG Office of Audit
Interim Financial and Compliance Audit
Welfare-to-Work Grant – Agreement No. Y-6814-8-00-81-60
Period from 07/01/98 to 06/30/00

Finding 1: Noncompliance with Federal Cost Principles, WtW Regulations, and Uniform Administrative Requirements

a. Unallowable costs

a.1. WtW client cash stipends – questioned costs of \$29,965

Response: Cash stipends were included as part of our original program design. The proposal was reviewed, negotiated and approved with cash stipends included. Our GOTR was aware of the situation and informed us that costs incurred would not be disallowed. We discontinued their use immediately when instructed. Therefore, this amount should be allowed.

a.2. Expenditures in support of three ineligible clients questioned costs of \$9,489, (\$3,163 per client)

Response: We can provide documentation in the clients' files to support the fact that sample numbers 274 and 479 are eligible under the 30% category. We agree that sample #3 was counted as an enrollment and was ineligible. We will de-enroll the client and the final quarterly report will be adjusted. However, because the overall enrollment exceeded the planned numbers, there should be no questioned costs.

a.3. Cash advance to ASAP, which subsequently ceased operation and unsupported or unreasonable expenditures. Questioned costs of \$25,000 advance and \$59,053 in questioned costs.

Response: We believe that these amounts should be allowed. The University took steps that a reasonably prudent business person would take to ensure that ASAP was a responsible partner. We identified ASAP in our proposal as a potential collaborative partner. We requested and received positive references from funding agencies that contracted with or were knowledgeable about ASAP. We toured their facilities and observed program activities. The DOL ETA team also conducted site visits. We requested documentation from ASAP, but the organization suddenly closed its doors before we were able to obtain the additional backup. Even after ASAP shut down, OAI made numerous attempts to contact ASAP's president to obtain documentation but failed. We put forth a good faith reasonable effort to obtain the receipts, therefore the amount should be allowed.

a.4. Unsupported/Unreasonable Expenses

Response: We believe we have adequate support for the majority of the transactions. Therefore, the costs should be allowed.

b. Procurement Policies

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Response: In general, DePaul believes its procedures meet the federal requirements for procurement. However, the procurement policies are under review and will be clarified, where appropriate, to more closely mirror the federal regulation's wording. Written policies and procedures are available on the Financial Affairs and Office of Sponsored Programs web sites and in the Handbook of Grant Management. In addition, policies and procedures are communicated through monthly training sessions, which all University Budget Managers, including Principal Investigators, attend. Compliance is primarily the responsibility of the individual Budget Managers and Principal Investigators. The policies are also enforced through review by various departments in the University, including the Payment and Procurement Department, the Internal Audit Department and, in many cases, the Office of Sponsored Programs and Research.

Finding 2: Noncompliance with Federal WtW Eligibility Target Group Reporting Requirement

a. Mis-classification of hard-to-employ and other eligible clients

General response: The state plan designated the IDHS as the agency responsible for determining client eligibility, conducting assessment and making the appropriate client referrals to service providers. Our approved grant proposal was based on this understanding. However, we found that IDHS did not provide us with reliable or accurate documentation on client eligibility and 70/30 classifications. We met several times with IDHS to rectify the situation. Our GOTR, the DOL and the OIG auditor were unable to get accurate information from the IDHS as well. Since IDHS did not provide us with accurate or reliable information, we were forced to do much more work than originally envisioned in our proposal and tried to collect the information on our own. We believe that if we had been provided with the information we would not have any questions on eligibility or misclassification on any of the clients.

Ineligible Clients Response: OIG listed 12 clients as ineligible. We agree that 5 clients were ineligible. The clients were counted as enrollment only and will be de-enrolled and deducted from the total enrollment. We disagree on 7 clients. These are all eligible clients.

Misclassified Clients Response: The OIG considered 54 clients as misclassified. We agree that 14 of these were listed as 70% but should have been 30% and we will change them. We also agree with 8 others that we changed during the audit. We disagree with the OIG findings on 32 clients. There is adequate documentation to support their status as 70%.

b. Consolidation of costs associated with the hard-to-employ and other eligible clients

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Response: Corrective action to address the consolidation of costs has already been completed. This current fiscal year, all WtW expenditures have been correctly assigned to the four cost categories according to the OAI Welfare-to-Work Cost Allocation Plan (CAP), using the most current client eligibility data.

- Expenditures for the first fiscal year have been adjusted among the four WtW accounts, addressing the consolidation of equipment/ technology and other eligible client costs among the administration and WtW 70% Direct Participant accounts.
- Following recommendations made by OIG auditors during the Fall 2000 interim fiscal audit, the CAP has been revised so that time and effort for development of the OAI WtW tracking system is now exempted from the calculation of pool cost assignment to the WtW cost categories. An adjustment has been entered in the financial system to redistribute pool cost already charged to the Equipment/Technology account across the other cost categories.

Finding 3: Noncompliance with Federal Reporting Requirements

a. QFSR not supported by the accounting system and MIS

Response: WtW expenditures were separated into only two cost categories—Administration and Participant 70%—during the first fiscal year of the project, 7/1/98 – 6/30/99. To address this error, OAI established a sub-system that separated the first year’s costs across all four categories, including Participant 30% and Equipment/Technology. All QFSR reports beginning the third fiscal quarter of the second fiscal year were produced using this system.

Following recommendations made by OIG auditors during this interim fiscal audit, DePaul University’s OAI adopted the policy of entering regular quarterly adjustments into the financial system, allowing the QFSR to align with the University’s accounting system.

The QFSR submitted for the last quarterly reporting period of Welfare-to-Work, through March 31, 2001, is directly linked to the financial and programmatic information generated by the financial reports and MIS tracking systems of the lead agency and subgrantees. A formal system is in place for the accumulation and assembly of fiscal and programmatic data for the QFSR. Subgrantees submit cumulative quarterly financial and programmatic reports to the lead agency within thirty days of the end of the quarter. Figures from these reports are incorporated with the University’s data.

b. Subgrantee expenditures are not promptly obtained

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Response: DePaul University has de-obligated the WtW competitive grant funds and terminated the program as of April 15, 2001.

Finding 4: Internal Control Weaknesses in Financial Reporting, Subgrantee Monitoring, and the MIS

Response: The OIG recommendation has been implemented. DePaul University has de-obligated the WtW competitive grant funds and terminated the program as of April 15, 2001.

a. Formal subgrantee monitoring system is not established.

Response: The OIG recommendation has been implemented. DePaul University has de-obligated the WtW competitive grant funds and terminated the program as of April 15, 2001

b. Formal QFSR reporting system is not established.

Response: A procedure was established. Based on the auditor's feedback, the procedure was strengthened establishing a link between the programmatic and fiscal data.

c. Access control to the WtW MIS needs to be strengthened.

Response: When we were made aware of the access control issue during the audit, the OIG's recommendation was immediately instituted and maintained until the termination of the program.