

U.S. Department of Labor

Office of Inspector General-Office of Audit

**EMPLOYMENT AND TRAINING
ADMINISTRATION**



**PERFORMANCE AUDIT OF
CITY OF SAVANNAH, GEORGIA
PY 1998 AND PY 1999 WELFARE-TO-WORK
COMPETITIVE AND FORMULA GRANTS
MAY 1, 1998 TO JUNE 30, 2003**

**Date Issued: September 30, 2005
Report Number: 04-05-004-03-386**

BRIEFLY...

Highlights of Report Number 04-05-004-03-386, a report to the Assistant Secretary for Employment and Training Administration. September 30, 2005.

WHY READ THE REPORT

Welfare-to-Work (WtW) legislation passed in August 1997 authorized the Secretary of Labor to provide \$3 billion in WtW grants to states and local communities. These grants were designed to target welfare recipients with the least skills, education, employment experience and those who live in high poverty areas. The report discusses whether the City of Savannah adequately managed WtW grants and complied with participant reporting requirements.

WHY OIG DID THE AUDIT

The OIG selected the City of Savannah, Georgia for audit because its WtW formula grant expenditures exceeded the grant amount. This was determined after a review and analysis of its financial and participant reporting data as of March 31, 2002. We audited a total of \$7,467,958 WtW formula and competitive grant funds provided to the City of Savannah, in Program Years 1998 and 1999. Our overall objective was to determine if the City of Savannah complied with regulatory requirements for WtW grants in the areas of managing WtW grants and participant reporting.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response, go to: <http://www.oig.dol.gov/public/reports/oa/2005/04-05-004-03-386.pdf>

September 2005

Performance Audit of City of Savannah, Georgia Welfare-to-Work Grants

WHAT OIG FOUND

OIG found that Savannah did not adequately manage WtW grants; and the State of Georgia and Savannah did not submit accurate and reliable Quarterly Financial Status Reports (QFSR) related to participant data. We questioned costs of \$2,856,430. We also found that the State of Georgia and City of Savannah did not follow existing controls for the proper preparation of QFSRs and the validation of participant data.

WHAT OIG RECOMMENDED

OIG recommended that the Assistant Secretary for Employment and Training Administration (ETA) recover total questioned costs of \$2,856,430 as follows:

- \$2,530,934 for the six WtW competitive contracts the City of Savannah did not competitively bid; and, at the same time, \$729,935 for other issues related to three of the six contracts. To avoid duplication of recovery, questioned costs should not exceed \$2,530,934.
- \$322,549 for unauthorized and duplicate childcare payments related to a follow-on contract that was competitive awarded.
- \$2,947 in unsupported costs.

We also recommended the Assistant Secretary for ETA ensure that the State of Georgia and Savannah follow existing controls for proper preparation of QFSRs and the validation of participant data for DOL programs.

The City of Savannah requested that OIG change all but one finding involving questioned costs to administrative findings. The State of Georgia and Savannah did not dispute the inaccuracy of participants' performance data.

Table of Contents

	Page
EXECUTIVE SUMMARY	3
ASSISTANT INSPECTOR GENERAL'S REPORT	7
FINDINGS AND RECOMMENDATIONS	8
Finding 1 - Savannah Did Not Adequately Manage WtW Grant Funds	8
Finding 2 - Savannah Did Not Comply With Participant Reporting Requirements by Submitting Inaccurate and Unreliable Performance Data	25
EXHIBITS	31
A. Schedule of Questioned Costs.....	33
B. Contracts Not Competitively Procured.....	35
APPENDICES	37
A. Background.....	39
B. Objectives, Scope, Methodology, and Criteria.....	43
C. Acronyms and Abbreviations.....	49
D. GDOL's Response	51
E. Savannah's Response	55

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Executive Summary

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

The Office of Inspector General (OIG) conducted a performance audit of the \$7,467,958 Federally-funded WtW grants provided to the City of Savannah, Georgia (Savannah), for Program Years (PY) 1998 and 1999. The \$7,467,958 included three WtW formula grants for a total of \$3,400,958 after modifications, and one WtW competitive grant in the amount of \$4,067,000.¹

The purpose of our audit was to determine if Savannah complied with regulatory requirements for WtW grants in the areas of financial management and participant reporting requirements. To accomplish these objectives, we designed our audit tests to answer the following questions:

1. Did Savannah adequately manage WtW grant funds?
2. Did Savannah comply with participant reporting requirements by submitting accurate and reliable performance data; and serve eligible participants to meet program objectives?

Results

We found that:

1. Savannah did not adequately manage WtW grant funds. When managing WtW grant funds, Savannah did not adhere to Federal regulations and its own policy and procedures. As a result, we question a total of \$2,856,430 that relate to WtW competitive grant funds. Specifically, Savannah did not conduct full and open competition when awarding 6 of 24 contracts to grant partners of its WtW competitive grant. Consequently, we question \$2,530,934, the total expenditure amount of the six contracts. Of this amount, we also question costs of \$729,935 for reasons related to unauthorized and unreasonable costs related to three of the six contracts referred to above. See Exhibit A (Schedule of Questioned Costs) for details.

¹ The three WtW Formula grants were awarded in May 1998, September 1999, and August 2002; and the WtW Competitive grant was awarded in January 1999.

We also question \$322,549 for unauthorized and duplicate payments for non-traditional childcare services. These questioned costs relate to a follow-on contract that was competitively awarded for continual childcare services.

In addition, ETA and other independent auditors identified a variety of administrative and programmatic problems with Savannah's WtW grant programs. For example, ETA noted after more than 2 ½ years, Savannah spent more than \$1.8 million of WtW competitive grant funds and had not placed any participants in unsubsidized employment. Consequently, ETA suspended Savannah's drawdown privileges for approximately 1 year.

Also, independent auditors reported that Savannah accumulated \$359,196 more expenditures than its PY 1999 WtW formula grant amount. Savannah liquidated the \$359,196 overage by using other Department of Labor (DOL) funds and other financial assistance from the State of Georgia. However, we question \$2,947 in costs charged to the competitive grant as part of the \$359,196 formula grant overage because they could not be supported.

2. Savannah did not comply with participant reporting requirements by submitting inaccurate and unreliable performance data to the Georgia Department of Labor (GDOL) and subsequently to ETA. In addition, GDOL inaccurately reported participant performance data to ETA.² We found that 62 percent of selected WtW participant performance data³ was either misreported or omitted.

Based on our sample of 82 participant files, we determined the number of ineligible participants was less than 5 percent. We consider this to be a reasonable error rate. We also found that ETA questioned Savannah's ability to track participant status. Specifically, ETA was unable to verify participant data related to WtW competitive grant programs on Savannah's Quarterly Financial Statement Report (QFSR).

Recommendations

We recommend that the Assistant Secretary for ETA:

1. Recover questioned costs of \$2,530,934 that represent the total expenditure amount for the six contracts for which Savannah did not perform an open and competitive award process.

² Savannah was responsible for submitting participant performance data, related to the WtW Competitive grant, directly to ETA after GDOL generated participants' performance results. GDOL was responsible for reporting participants performance data, related to WtW Formula grants, to ETA.

³ Our sample does not distinguish between participants served under WtW Competitive and Formula grants since the basic eligibility requirements were the same for both grants.

2. Recover questioned costs of \$729,935 for other issues related to three of the six contracts noncompetitively awarded to Savannah's grant partners. See Exhibit A for details.

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

If ETA resolves not to question the \$2,530,934 in contract costs that were not awarded in an open and competitive process, ETA still needs to consider if \$729,935 of the \$2,530,934 questioned costs were unauthorized or unreasonable.

3. Recover questioned costs of \$322,549 related to a follow-on contract of Savannah's nontraditional childcare program that was competitively awarded. The questioned costs were due to unauthorized and duplicate payments for childcare services.
4. Recover questioned costs of \$2,947 for unsupported costs shifted to the competitive grant to cover overage of accumulated expenditures in the PY 1999 formula grant. Require Savannah to take steps to ensure adequate financial and administrative controls are put in place to ensure DOL funds are expended in accordance with the applicable Federal regulations. Also, ensure contract costs related to DOL programs are necessary and reasonable pursuant to the terms of the grant and contract.
5. Ensure the State of Georgia and the City of Savannah follow existing controls for the proper preparation of QFSRs and the validation of participant data for DOL programs.

City of Savannah and the State of Georgia Response

The City of Savannah requested that OIG change all questioned costs to administrative findings except costs questioned in sub-finding **1d** (see pp 16-17). With regard to sub-finding **1d**, the City of Savannah asked that OIG remove the finding from the report. Neither the State of Georgia nor the City of Savannah disputed the inaccuracy of participant performance data.

The State of Georgia's response in its entirety is attached to this report as Appendix D. The body of the City of Savannah's response is included in Appendix E. Since attachments to the City of Savannah's response contained personal identifying information, the attachments are not included with this report.

OIG Conclusion

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

U.S. Department of Labor

Office of Inspector General
Washington, DC. 20210



Assistant Inspector General's Report

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We audited the City of Savannah, Georgia (Savannah), Welfare-to-Work (WtW) competitive and formula grants. The Coastal Workforce Services (CWS) replaced SeaCoast Workforce Development Board (SWDB) as Savannah's administrative entity for both WtW competitive and formula grants. Savannah received its competitive grant directly from ETA and its formula grants from the State. Savannah was awarded a total of \$7,467,958 in WtW grant funds. The amount awarded included three WtW formula grants for a total of \$3,400,958 after modifications, and one WtW competitive grant in the amount of \$4,067,000.

The purpose of our audit was to determine if Savannah complied with regulatory requirements for WtW grants in the areas of financial management and participant reporting requirements. To accomplish these objectives, we designed our audit tests to answer the following questions:

1. Did Savannah adequately manage WtW grant funds?
2. Did Savannah comply with mandatory participant reporting requirements by submitting accurate and reliable performance data; and serve eligible participants to meet program objectives?

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

FINDINGS AND RECOMMENDATIONS

Objective 1 - Did Savannah adequately manage WtW grant funds?

Finding 1 - Savannah did not adequately manage WtW grant funds.

When managing WtW grant funds, Savannah did not adhere to Federal Regulations and its own policy and procedures. Savannah did not comply with regulatory requirements for WtW grants in the areas of contract procurement and management, and did not meet the standards for budget controls, internal controls, and allowable costs, which are key components of an effective financial management system. The Code of Federal Regulations (CFR) 29 CFR 97.20 (Standards for Financial Management Systems), states that grantees and subgrantees must have an adequate financial management system that includes internal and management controls necessary to ensure grant fund expenditures are allowable and authorized.

Our audit results revealed that Savannah did not comply with regulatory requirements to conduct full and open competition when it awarded 6 of 24 contracts. Savannah reimbursed contractors for costs that were unauthorized and unreasonable based on the terms of the competitive grant. Savannah's accumulated expenditures exceeded its Program Year (PY) 1999 WtW formula grant amount by \$359,196. ETA reported other problems with Savannah's WtW competitive grant programs in its monitoring report dated August 30, 2001. As a result, ETA suspended Savannah's drawdown privileges of its WtW competitive grant funds for about 1 year. ETA restored the drawdown privileges when Savannah officials reported improvements in their participant job placements performance measure.

We identified a total of \$2,856,430 in questioned costs related to WtW competitive grant funds. Specifically, \$2,530,934 related to noncompliance with procurement regulations for six contracts awarded to grant partners (**Finding 1a**). Of this amount, we also question \$729,935 related to three of the six contracts for unreasonable and unauthorized costs (**Finding 1b – 1g**). Additionally, we question \$322,549 related to a follow-on contract of Savannah's nontraditional childcare program (**Finding 1b and 1c**). Lastly, we question \$2,947 for unsupported costs related to WtW competitive grant funds. These unsupported costs were used to help absorb a \$359,196 overage of WtW formula grant accumulated expenditures (**Finding 1h**). These and other issues are discussed in detail below.

Finding 1a:- Savannah did not comply with Federal procurement requirements.

Savannah did not conduct full and open competition when it awarded 6 of 24 contracts (25 percent) to grant partners of its WtW competitive grant. The grant partners were

included as service providers in the WtW competitive grant agreement. Federal regulations require full and open competition when awarding contracts. Consequently, we question \$2,530,934, the total expenditure amount of the six contracts.

The six grant partners referred to in this discussion are:

- Lutheran Services of Georgia (LSG)
- Chatham Area Transit (CAT)
- Goodwill Industries of the Coastal Empire, Inc. (Goodwill Industries)
- Housing Authority of Savannah
- Small Business Assistance Center
- Work Activity Center

Within the grant agreement, Savannah provided assurance that it would fully comply with Federal procurement regulations at 29 CFR 97, including regulations at 29 CFR 97.36 (c) (Competition), which states:

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

The regulations stress that proper procurement practices may help grantees and sub-grantees avoid unnecessary and duplicative items, and purchase goods and services at an economical and reasonable price. Inclusion of the grant partners in the grant application does not relieve the grantee from following Federal requirements, ETA instructions, or its own procurement policy.

ETA awarded Savannah a \$4,067,000 WtW competitive grant in January 1999. The total amount of the six contracts was \$2,813,907 (or 69 percent of the grant amount). The total expenditures for the six contracts amounted to \$2,530,934 (or 62 percent of the grant amount). See Exhibit B for details.

Early during the audit, Savannah officials admitted that none of the initial contracts were competitively awarded to the six grant partners. When these contracts were awarded, Savannah officials mistakenly considered that ETA had competitively procured the six contracts since the six grant partners were included in the grant agreement as service providers.

On September 15, 1999, ETA responded to a request by Savannah officials for approval to sole source a Welfare-to-Work Competitive contract to Savannah/Chatham Youth Futures Authority for customer service training.⁴ ETA denied Savannah's request based on established practices described in the WtW Technical Assistance manual that were later codified in TEGL No. 15-01.

⁴ LSG and the Youth Future Authority created a public-private collaborative designed to serve the needs of at-risk children.

After Savannah awarded the six contracts, ETA admonished Savannah for not conducting proper procurement practices. On August 30, 2001, ETA took issue with Savannah's procurement practices. ETA stated in its monitoring report:

There was no documentation to determine if these contracts were competitively bid. The grantee was advised against sole-source contracting in correspondence dated September 15, 1999, and subsequent training provided by USDOL national and regional offices.

On August 4, 2003, we provided Savannah officials with our Statement of Facts document, which identified five of the six contracts⁵ that Savannah did not competitively award. On August 21, 2003, in response to our Statement of Facts document, Savannah officials stated:

Correspondence between former Executive Director, [Name Deleted] and, the Administrator of U.S. DOL ETA, [Name Deleted], indicate that partners who participated in the development of the project believed the strength of the "community collaborations were the backbone of their submission and that the competitive procurement was conducted by the U. S. Department of Labor" through the Competitive Grant. It was later determined that a competitive process for partners was required and selection of partners was not automatic. Appropriate action was taken and all contracts were competitively procured.

Savannah's response confirms that the contracts had not been competitively awarded as required by Federal procurement regulations. Title 29 CFR Part 97 (Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments) requires that some form of price analysis shall be completed and documented for every procurement action. Furthermore, open competition ensures that contractors provide the highest quality of services at the most economical and reasonable price. Because Savannah circumvented this federally required process for procurement, the requisite assurance of the highest quality of services at a fair price was not assured for the six contractors' services. As a result, we question \$2,530,934, the total expenditure amount for the six contracts that Savannah did not competitively award to its WtW competitive grant partners.

During our exit meeting, Savannah officials pointed out what they perceived to be an inconsistency in ETA's policy as it relates to awarding contracts to grant partners. Savannah officials provided a letter dated (May 9, 2000), from ETA's Acting Administrator, Office of Youth Services to attendees of a Youth Opportunity Grant conference (April 26-28, 2000) which states:

⁵ A sixth contract was identified after we issued the Statement of Facts.

The partners identified in your application/proposal do not need to be competed. Any new services must be procured according to the awardees procurement policies.

However, we found ETA's written guidance and policy regarding the need for grant partners to competitively bid is consistent. This guidance can be found in ETA's WtW Technical Assistance manual (October 26, 1999). In addition, this guidance was codified in ETA's Training and Employment Guidance Letter (TEGL) No. 15-01, March 22, 2002, "Set of Revised WtW Questions and Answers". The TEGL requires grant partners to competitively bid for contracts as stated by the question and answer (AF10) in the Administrative and Fiscal section of the attachment.⁶

We also identified other reasons to question a total of \$729,935 related to three of the six contracts not competitively awarded. We determined the questioned costs resulted because Savannah did not ensure that key standards for an effective financial management system were met as required by 29 CFR 97.20 (Standards for financial management systems).

We determined the "Allowable Costs" standard was a common issue involving all questioned costs. This standard requires grantees and subgrantees to follow applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements to determine the reasonableness, allowability and allocability of costs. We questioned costs because they were unauthorized or unreasonable. With the exception of the issue in Finding 1d, a lack of Internal Control was determined to be common to all other issues in Finding 1 of this report. The standard for "Internal Control" requires grantees and subgrantees to maintain effective controls and accountability for all grant and subgrant cash, and to ensure that grant funds are used solely for authorized purposes. The standard for "Budget Control", which requires actual expenditures (including unit cost) to be compared with budgeted amounts for each grant and subgrant, was cited as a deficiency in two of the findings discussed below.

Finding 1b - Amounts paid for childcare services exceeded amounts in the WtW Grant Agreement, and other unauthorized childcare services were provided.

Savannah paid childcare providers, through its program operator, amounts that exceeded the cost per child in the WtW competitive grant. The grant between ETA and Savannah provided that specific supplemental payments be made to childcare providers for Temporary Assistance for Needy Families (TANF) recipients in need of nontraditional childcare services while transitioning to work. Savannah contracted with LSG as the childcare program operator. We compared the individual amounts in the grant to the actual amounts LSG paid the providers for childcare services. We determined LSG paid childcare providers a total of \$606,063 for amounts that exceeded childcare fees authorized in Savannah's competitive grant related to the nontraditional childcare program. The \$606,063 included a total of \$354,027 LSG paid childcare providers in

⁶ The questions and answers related to this issue are identical in ETA's WtW Technical Assistance Manual (refer to Q&A AF13) and the TEGL No. 15-01 (refer to Q&A AF10).

excess of the grant's weekly cost per child. We identified an additional \$252,036 that LSG paid providers for childcare services to children who exceeded the grant authorized age limit. Savannah did not question the payments and reimbursed LSG for these costs. Consequently, we question a total of \$606,063 for excessive and unauthorized childcare costs related to Savannah's nontraditional childcare program.

ETA awarded Savannah a WtW competitive grant to provide a variety of services, including nontraditional childcare assistance to TANF recipients transitioning to work. Savannah contracted with LSG, its grant partner, to administer the nontraditional childcare programs, which included making client referrals and payments to childcare providers. Savannah awarded LSG two contracts⁷ for a total of \$1,574,433 to administer both childcare programs. The total amount of the initial contract was \$1,116,433, followed by a second contract for \$458,000. The second contract also allowed for traditional childcare services to TANF recipients.

According to the grant agreement, the intent of the program was to provide specific supplemental payments for nontraditional childcare services based on a child's classification as an infant, toddler, or pre-schooler. The grant agreement states:

Payments for CHILDCARE are already provided by the Department of Family and Children's Services [DFCS] to TANF recipients if they are enrolled in a training or work experience program. **The proposal here is to supplement the DFCS payments for TANF recipients, which will allow providers to expand slot levels and hours of operation.**

Rather than providing supplemental payments as described in the grant agreement, LSG paid childcare providers the total weekly rate for the childcare services. According to Savannah and LSG officials, they were concerned that eligible participants might be denied employment opportunities because it would have taken DFCS several weeks to arrange childcare services for the client. These officials determined it would be more expedient for them to provide interim childcare services for TANF recipients until DFCS could arrange childcare services.

On September 23, 1999, Savannah and LSG established the following policy.

... (2) If a welfare to work client accepts a job with non-traditional or extended hours, LMG [LSG] will pay the client's child care costs to the child care provider until the DFCS child care provider contract is in place. Once the DFCS childcare contract is in place, then LMG will pay the child care provider a supplement.

⁷ Contract No.99-08C for \$1,116,433, period of performance was May 1, 1999, to December 31, 2002; and Contract No. 02-030A for \$458,000, period of performance was April 15, 2002, to June 30, 2003. We noted that the subsequent contract period overlapped the initial contract period and provided both traditional and nontraditional childcare services.

It is worthwhile to note that the policy did not provide for DFCS to reimburse either Savannah or LSG for any cost of providing interim childcare services. Also, according to LSG’s WtW Program Manager, LSG has never paid supplemental payments for childcare services as a matter of practice.

Furthermore, from August 1999 to January 2001, LSG was not consistent with the amounts it paid to childcare providers. As a result, LSG established standardized fee schedules for nontraditional childcare services. On January 22, 2001, LSG issued the first of several policy statements to WtW childcare providers related to “Standardized Fees for Non-Traditional Childcare” services. According to LSG’s Vice President of Operations, this was done mainly to keep better track of what childcare providers were being paid. However, the standardized fees exceeded fees in the grant agreement. Table 1 compares the childcare fees in the grant agreement to the standardized fees LSG actually paid childcare providers.

Table 1

PY 1999 WtW Competitive Grant vs. Actual Fee Schedule for Childcare Assistance					
Grant Amount		LSG’s Fee Schedule Amount			
Child Classification	Weekly Fee	Age of Child	February 2001	April 2002	February 2003
Infants	\$30	0 year - 1 year	\$85	\$75	\$75
Toddlers	\$20	2 years	\$85	\$75	\$75
Pre-schoolers	\$20	3 years - 5 years	\$75	\$65	\$65
6 years and over	N/A	6 years - and over	\$65	\$50	\$50

As Table 1 illustrates, LSG’s childcare costs were based on the age of the child rather than a child classification as defined in the grant agreement (i.e., infant, toddler, or pre-schooler). By doing this, childcare providers could charge the same fee for “toddlers” and “infants.” Based on LSG invoices, childcare weekly fees for infants were higher than other children.

We requested all invoices related to LSG’s nontraditional childcare program since inception of the childcare program. The dates of these invoices covered August 1999 through June 2003. We reviewed the invoices and identified a total of 335 children under the age of 6 years whose childcare costs exceeded amounts in the grant agreement by a total of \$354,027. There were 2,408 claims for childcare payments associated with the 335 children. Separately, we identified an additional 159 school age children between the

ages of 6 and 14 years who received unauthorized childcare services for a total of \$252,036.⁸

In addition to the “Allowable Cost” and “Internal Control” standards for an effective financial management system standards at 29 CFR 97.20 referred to above, grantees and subgrantees must meet the standard for “Budget Control” to ensure that expenditures are compared to budgeted amounts, including unit cost. Savannah did not ensure that childcare providers were being paid the authorized weekly rate for childcare services contained in the grant agreement.

Table 2 illustrates a comparison of nontraditional childcare costs between amounts in the grant agreement and the amounts LSG paid childcare providers.

Table 2

PY 1999 WtW Competitive Comparison of Nontraditional Childcare Costs Grant Amount vs. Amount Paid					
Age of Child⁹	No. of Children	No. of Claims	Grant Amount	Paid Amount	Difference
0-1 year	123	752	\$71,730	\$176,470	\$104,740
2 years	56	487	\$31,740	\$116,944	\$ 85,204
3-5 years	156	1,169	\$76,050	\$240,133	\$164,083
6 years and over	159	1,402	0	\$252,036	\$252,036
Total	494 ⁽¹⁰⁾	3,810	\$179,520	\$785,583	\$606,063

The terms of the nontraditional childcare program as described in the grant between ETA and Savannah extend to the contract between Savannah and LSG. Accordingly, any material changes to the nontraditional childcare program, as described in the grant agreement, should have had prior approval from ETA. The grant required that, “Changes in excess of 20 percent and any changes in wages, salaries and fringe benefits, MUST receive prior written approval from the Grant Officer.” In each instance we identified, the amount paid for nontraditional childcare services exceeded the cost per child by more than 20 percent. We found no evidence of approval from ETA that allowed LSG to charge these costs under the nontraditional childcare program.

⁸ An additional \$32,263 was determined to be duplicate payments, and are included as part of Finding 1c.

⁹ The amount of childcare costs was based on the age of the child or the child’s classification as illustrated in Table 1.

¹⁰ Total number of children that received childcare was 405. The 494 total reflects duplicates due to change in age over 1999-2003.

Title 29 CFR 97.20 requires budgetary controls to ensure actual expenditures do not exceed the budget, including applicable unit costs. Savannah exceeded its budgetary unit costs for childcare services and also expended funds for unauthorized childcare. Consequently, we question a total of \$606,063 for childcare costs that exceeded the grant amounts and for other childcare costs not authorized in the grant agreement.

The total questioned cost of \$606,063 for excessive and unauthorized childcare costs is split between two contracts with LSG, contract 99-08C (not competitively awarded) and contract 02-030A (competitively awarded), in the amounts of \$327,448 and \$278,615, respectively.

Finding 1c - Savannah reimbursed its contractor a total of \$79,144 in duplicate payments for childcare services.

Savannah reimbursed LSG a total of \$79,144 in duplicate payments for childcare services beyond the authorized full workweek. Savannah contracted with LSG to provide WtW participants nontraditional childcare assistance while WtW participants attempted to meet the Program's work requirements.¹¹ Savannah reimbursed LSG for childcare services that extended beyond the services authorized during a full Workweek.¹²

In addition to the Federal regulations at 29 CFR 97.20 referred above, OMB Circular A-87 requires costs to be allowable, and authorized by state or local laws or regulations. We found no evidence to support that these particular costs were authorized or allowed by the grant agreement or LSG's contract with Savannah.

We requested all invoices LSG submitted to Savannah for reimbursement related to nontraditional childcare services. We identified 604 reimbursement claims for childcare services that were provided beyond the authorized period during a full workweek. According to LSG's Standardized Fee Schedule for Non-Traditional Childcare policy to all WtW childcare providers:¹³

All rates apply to a 5-day work week. If you are providing care to a child both during the week and on the weekend, that child should only be in their care during the week for (3 week days/2 days on the weekend) or (4 weekdays/1 day on the weekend). If a parent has to work extra days, childcare services must be approved by WtW Childcare Services. No child should be in daycare beyond 10 hours per day and no child should be in daycare 7 days a week. Any fees beyond the normal workweek and beyond 10 hours a day

¹¹ Contract No. 99-08C, was funded with WtW Competitive grant funds. The contract amount was \$1,116,433, and covered May 1, 1999, to December 31, 2002.

¹² Generally, LSG considered a full workweek to be 3 to 5 days worked during a 7-day period or work on Saturday and Sunday only.

¹³ See Finding Ib, Table 1 for LSG's Fee Schedule for Non-Traditional Childcare Assistance.

will become the sole responsibility of the parent. Please be aware that if a child is only in your care for 1 day on the weekend you will not be paid the full weekly rate.

According to LSG's Vice President of Operations, LSG's staff incorrectly paid twice the weekly rate when childcare services included both weekdays and weekend days in a full workweek (Wednesday through Sunday). LSG's Vice President referred to this as "double dipping", which resulted in duplicate payments for childcare services in a full workweek. The Vice President attributes this to staff misinterpretation of LSG's Childcare Payment Schedule policy. Specifically, Example 3 of the policy states:

Work week is the five day period Saturday, Sunday, Monday, Tuesday, and Wednesday. Required payment would be full week rate Monday-Friday and full week rate Saturday-Sunday.

The Vice President of Operations indicated that LSG's staff interpreted the policy to mean that separate childcare payments were required for weekdays and weekend days. Again, even though LSG's policy required prior approval from Savannah to pay for childcare services beyond the 5-day workweek, we found no evidence that Savannah approved extra days of childcare services in these instances. Even if Savannah had approved the extra days of childcare services, paying for childcare services beyond the 5-day workweek exceeded the scope of the program as described in the grant. The grant only allowed for a nominal weekly supplemental payment for nontraditional childcare services. Therefore, we question \$79,144 in duplicate payments LSG paid providers for childcare services beyond the authorized full workweek. The total question cost of \$79,144 is split between the two contracts between Savannah and LSG, contract 99-08C (not competitively awarded) and contract 02-030A (competitively awarded), in the amounts of \$35,210 and \$43,934, respectively.

Finding 1d - Savannah paid its contractor unreasonable costs to provide transportation services to WtW participants.

Savannah paid approximately \$228,707 in unreasonable transportation costs for 6,823 trips its contractor provided to WtW participants. We estimate that Savannah paid Chatham Area Transit (CAT) \$294,140 for 6,823 trips, compared to an estimate of \$65,433 that could have been reasonably charged by another local transportation provider.

Savannah entered into a cost reimbursement contract with CAT (with Laidlaw Transit Services, Inc. or Laidlaw) as the subcontractor¹⁴ to provide transportation services to WtW participants that resided in Chatham County. The contract amount was \$888,643 and covered August 1999 through December 2001. The primary objective of the contract was:

¹⁴ CAT (with Laidlaw as subcontractor) will be referred to as CAT in this finding and finding 1e.

To provide transportation for the WtW clients with children to daycare and then to the job, reverse trip and emergency pick-up ... all transportation aspects of this contract have been sub-contracted to Laidlaw Transit Services, Inc. with oversight of the contract by CAT.

We estimate that Savannah paid CAT \$294,140 for 6,823 trips (\$43.11 per trip), an amount that is unreasonable for transportation services provided. We found that Savannah's reimbursements to CAT were based on Laidlaw's total operational costs rather than a reasonable cost for the transportation services provided.

The OMB Circular A-87 requires cost to be reasonable. The Circular describes "Reasonable Costs" as,

... in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

As of November 21, 2003, CAT had compiled summary data for 6,823 of the 16,333 trips provided WtW participants. We used the summary data to evaluate the 6,823 trips to determine if the costs were reasonable. Using a random sample at a 95 percent confidence level, we selected 140 trips for review from the universe of 6,823 trips for which summary data was available. With the assistance of Yahoo Maps and MapQuest (internet source mileage estimators), we estimated the number of miles for the 140 trips. Next, we used the fee schedule of Airport Express,¹⁵ another local transportation provider, to estimate its cost to provide WtW participants the same 6,823 trips. Based on our sample, we estimate it would have cost \$65,433¹⁶ if Airport Express were use to provide the 6,823 trips, instead of the \$294,140 Savannah reimbursed CAT for these trips. Therefore, we estimate that Savannah paid \$228,707 in unreasonable¹⁷ costs to CAT for providing 6,823 trips to WtW participants. If we had audited the remaining 9,510 trips that were not summarized and if the excessive costs continued to be reflected in these trips, and then we would reasonably expect similar results and additional costs would have the potential to be questioned.

These unreasonable charges stemmed from the fact that CAT, as a Savannah WtW competitive grant partner, was not required to competitively bid for the initial transportation services contract. We consider the amount Savannah paid for CAT to provide WtW participants' transportation services to be unreasonable. Therefore, we question \$228,707 of transportation costs paid to CAT by Savannah under the initial contract to provide transportation services.

¹⁵ Airport Express is another transportation provider selected by Savannah from a subsequent competitive process to provide almost identical transportation services as CAT. We compared the Airport Express contract to CAT contract and determined the services of providing participant transportation were identical except for driver's training costs. We removed this cost from our analysis.

¹⁶ The sampling precision of the projection for cost to provide transportation to the 6,823 participants is plus or minus \$4,900.

¹⁷ The excess cost of \$228,707 is based on the difference between \$294,140 and \$65,433.

Finding 1e - Savannah's subcontractor used funds intended for WtW participants to pay its employees' salaries and benefits.

Savannah reimbursed CAT \$92,339 intended for WtW participants to pay salaries and fringe benefits for eight of its subcontractors' employees. The contract between Savannah and CAT required the salaries and fringe benefits be paid for van driver trainees in the WtW Vanpooling/Guaranteed Ride Home program. After completing the program, participants would be given the opportunity to purchase a van. Eight of the 11 individuals who participated in the program were not WtW participants, but rather employees of Laidlaw. Consequently, we question \$92,339 for the salaries and fringe benefits paid for these eight individuals.

Savannah stated in its WtW competitive grant proposal that it would develop a program to provide WtW participants transportation to and from work, with stops for emergency pickups. To accomplish this, Savannah would purchase vans and train WtW participants as van drivers. These participants would then have the opportunity to purchase a van through loans, thus leading them to become entrepreneurs and becoming self-sufficient. However, the grant agreement between ETA and Savannah prohibited the use of WtW funds as loans to purchase the vans. Still, training WtW participants as van drivers was allowed to continue.

Savannah contracted with CAT to provide the WtW participants transportation and van driver training. The contract required that the salaries and fringe benefits of participants in the van driver training program to be paid with WtW funds. We found that 8 of the 11 individuals in the program were employees of Laidlaw and not WtW participants.

Based on CAT's accounting records, all 11 individuals were reimbursed under the program's "Enrollee" cost category. However, our review of correspondence showed that Savannah only verified 3 of the 11 individuals as WtW eligible participants. Accordingly, none of the eight Laidlaw employees were presented as meeting the general eligibility requirements for WtW at 20 CFR 645.212 and 20 CFR 645.213.¹⁸ According to a Laidlaw official, this was more of an accounting issue rather than an issue of program eligibility. This official also stated that any TANF "driver" would have to become an employee in order to drive a company's van. This is why WtW participants were considered employees rather than enrollees while in the program.

In addition to the "Allowable Cost" and "Internal Control" standards for an effective financial management system at 29 CFR 97.20 referred above, grantees and subgrantees must meet the standard for "Budget Control" to ensure that expenditures are compared to budgeted amounts, including unit cost.

¹⁸ 20 CFR 645.212 and 20 CFR 645.213 outlines general eligibility criteria for TANF recipients who are classified as Hard-to-Employ and Long-term Welfare Dependency, respectively.

Nowhere in the grant or contract budgets were Laidlaw's employees considered "Enrollees."

To allow Laidlaw employees to be treated the same as WtW participants in this case would seem to be at odds with the program objectives. Laidlaw employees and WtW participants were considered the same in the way they were utilized in the van driver program and reimbursed for salaries and benefits.

The original objective of the program was:

... to provide an opportunity for TANF recipients to become self-supporting owners of a small business; e.g., vanpool operator.

Because Savannah was prohibited from using WtW funds to make loans to participants towards the purchase of a van, the objective was not achievable as intended. Consequently, we question \$92,339 paid for the wages and fringe benefits to the employees of Laidlaw who were not determined eligible for the WtW program.

Finding 1f - Savannah reimbursed its contractor for unauthorized transportation and registration fees.

Savannah reimbursed LSG a total of \$39,760 for unauthorized transportation and registration fees. According to LSG's summary expenditure report, we identified a total of \$39,760 related to transportation and registration fees we determined to be unauthorized based on the grant agreement. According to the report, LSG spent \$32,860 and \$6,900 for transportation and registration fees, respectively. These costs were not identified in the contract as authorized childcare (Enrollee) activities. According to LSG's contract with Savannah, Enrollee (or participant) costs include:

... vouchers for enrollees for non-traditional hour's child care infants, toddlers, pre-schoolers, and school age children to age 12.

We did not find any evidence in the grant or contract that authorized registration or transportation fees. In fact, on August 15, 2001, LSG advised childcare providers that they would no longer be reimbursed for transportation fees. According to the memo:

It is with great reservation that we inform you that we are no longer authorized to pay transportation cost. This mandate is directed from the Department of Labor and will come into effect September 1, 2001.

OMB Circular A-87 requires cost to be authorized by state or local laws or regulations. We found no evidence in the grant agreement or the contract between Savannah and LSG to support that these particular costs were authorized or allowable. Savannah did not provide evidence to support the authorization for these costs; therefore, we question a total of \$39,760 for unauthorized transportation and registration fees.

Finding 1g: Savannah reimbursed Goodwill Industries of the Coastal Empire, Inc., for costs related to 18 ineligible participants in the WtW Wheels-to-Work program.

Savannah reimbursed Goodwill Industries of the Coastal Empire, Inc. (Goodwill Industries), \$6,471 for auto related expenses¹⁹ for 18 ineligible participants in the WtW Wheels-to-Work program. The Wheels-to-Work program was funded with WtW competitive grant funds, which were intended to serve only residents of Chatham County. The Wheels-to-Work program provided WtW participants an opportunity to purchase a used vehicle while working.

In addition to Federal regulations at 29 CFR 97.20 referred above, OMB Circular A-87 requires costs to be allowable and authorized by state or local laws or regulations. We found no evidence to support that these particular costs were authorized or allowed by the grant agreement or Savannah.

Savannah and Goodwill Industries provided cars for the program. Savannah reimbursed the program for the necessary auto repairs, inspections, and other services before participants purchased the vehicles.

According to the contract, the program was designed to provide up to 75 participants with an automobile when the individuals required personal transportation for work. During the contract period,²⁰ Goodwill Industries served 45 individuals in the Wheels-to-Work program. We determined 18 of the 45 individuals (40 percent) were ineligible because 16 did not reside in Chatham County, and two had not enrolled in the WtW program. Savannah did not provide additional documentation to refute our conclusion as it relates to these costs.

A total of \$114,309 was expended from the WtW competitive grant for the Wheels-to-Work program. According to Savannah's records, a total of \$6,471 was spent for auto related expenses on behalf the 18 ineligible participants in the Wheels-to-Work program. Consequently, we question the \$6,471 spent on behalf of these 18 ineligible participants for auto related expenses.

Finding 1h - Savannah Exceeded Its PY 1999 WtW Grant Amount by \$359,196.

Independent auditors determined that Savannah's accumulated expenditures exceeded its grant amount²¹ by \$359,196. The independent auditors concluded, and we concur, that the accumulated expenditures overage was due to poor monitoring of grant expenditures. Other DOL programs for which almost all selected individuals were

¹⁹ Auto related expenses include repairs, inspections, towing, insurance, and car payments.

²⁰The total contract amount, after modification, was \$114,309 and covered July 1, 1999, through December 31, 2002.

²¹ Independent auditors conducted a Single Audit in accordance with OMB Circular A-133 for Fiscal Years ended December 31, 2000 and 2001.

eligible, and other financial assistance from the State of Georgia, were used to liquidate the \$359,196 overage. The overage was liquidated in the following manner:

- \$203,064 was transferred to Savannah's PY 1999 WtW competitive grant;
- \$147,485 was obtained from other WtW formula funds from GDOL; and
- \$8,647 was transferred to WIA programs to cover supportive services costs.²²

Savannah officials reportedly identified 117 WtW formula grant participants who were eligible for competitive grant funds, and transferred them to the competitive grant to absorb \$203,064 of the \$359,196 overage. We compared the names and addresses of these individuals to Savannah's Master List of WtW Participants to determine if they were listed and if they resided in Chatham County, as required by the WtW competitive grant. Based on our comparison, we found that 3 of the 117 individuals were not listed on the Master List and 1 of the 3 individuals was not listed as a resident of Chatham County. The total cost related to the three individuals was \$2,947, which we question under the competitive grant.

Savannah did not adhere to its internal controls over cash drawdowns. Savannah's financial management procedures require its Finance Department and the Senior Accountant at the Workforce Board to conduct a periodic reconciliation of accumulated expenditures and total cash drawn down. However, Savannah could not provide evidence that such reconciliation had been performed.

ETA conducted a comprehensive monitoring review of Savannah's WtW competitive grant in August 2001. The purpose of the visit was to review the programmatic and administrative elements of Savannah's WtW competitive grant in an effort to determine Savannah's ability to successfully continue operations beyond September 20, 2001. According to an ETA official, grant activity was suspended for a considerable amount of time due to legislative changes²³ that resulted in a change of subcontractors. However, ETA conducted technical assistance roundtable conferences in PY 2000 to PY 2003 for grantees that desired assistance with their WtW programs.

ETA identified 15 issues where Savannah's administration of the WtW grants was determined to have failed or needed considerable improvements. The issues generally involved the administration of services systems, records, staffing, and the overall performance of the grant. Of particular interest was ETA's finding that Savannah had expended approximately \$1.8 million of the nearly \$4.1 million competitive grant and had not placed any participants in unsubsidized employment for more than 2 ½ years

²²Section 663.310 allows core services to adults 18 years and older. Section 663.805 of WIA allows supportive services to individuals who receive core, intensive or training. WIA strongly encourages local boards to establish linkages between other programs in an effort to transition individuals to self-sufficiency. We reasonably concluded that individuals receiving funds to cover their supportive services were eligible.

²³ The legislative changes involved the implementation of WIA during August 1998 to July 2000. There was also a change of Savannah's administrative agency for WtW programs from SeaCoast Workforce to Coastal Workforce Services in July 2000, which contributed to the suspended grant activity.

after receiving the funds.²⁴ As a result of Savannah poor performance, ETA removed Savannah from the Advance Payment System used to draw down funds from the WtW competitive grant. Effective August 30, 2001, ETA required Savannah to submit invoices for the costs of providing services for WtW competitive grant programs.²⁵ In response to ETA's follow-up review conducted July 29 - 31, 2002, Savannah officials stated:

We are working to serve the additional participants and have met the new change in placement of unsubsidized employment by placing 456 participants as of July 29, 2002.

Based on a follow-up review and the corrective action taken by Savannah, ETA's Regional Administrator recommended that Savannah be removed from the invoice system and its drawdown privileges be restored effective September 18, 2002.

Although Savannah drawdown privileges were restored for WtW competitive grant funds, the magnitude of issues cited by ETA in their monitoring visits and those issues discussed in this report clearly indicate Savannah's financial management system was not effective for WtW grant funds. Savannah's efforts to absorb its PY 1999 WtW formula grant accumulated expenditures overage were generally successful. However, we determined \$2,947 of the \$203,064 competitive grant funds used to absorb the \$359,196 overage was not supported. Therefore, we questioned \$2,947 related to three ineligible individuals of WtW competitive grant programs, whose related costs were used to absorb the overage of accumulated expenditures.

Savannah's failure to comply with regulatory requirements for WtW competitive grant funds resulted in total questioned costs of \$2,856,430. Savannah's improper procurement practices were the primary reason for the questioned costs. These improper procurement practices led to other reasons for questioning costs involving three contracts that Savannah noncompetitively awarded to its grant partners. Open competition for contract services provides reasonable assurances that the services have been acquired at the most reasonable and economical available price. In addition, Savannah's financial management system was not effective for WtW grant funds. The presence of an effective financial management system makes it more likely that program funds are used effectively and for its intended purpose.

²⁴Savannah proposed to place 650 participants in unsubsidized employment when it applied for the Competitive grant. As of August 2001, more than 2 ½ years after receiving the funds, no participants had been placed in unsubsidized employment.

²⁵ Under the invoice system, grantees must submit an invoice outlining funding activities and expenditures to the Grant Officer's Technical Representative in the regional office prior to drawing funds under their WtW grant.

Recommendations

1. We recommend the Assistant Secretary for ETA recover questioned costs of \$2,530,934 that represent the total expenditure amount for the six contracts for which Savannah did not perform an open and competitive process in awarding contracts to its grant partners.
2. We recommend the Assistant Secretary for ETA recover questioned costs of \$729,935 for other issues related to three of the six contracts noncompetitively awarded to Savannah's WtW competitive grant partners. Specifically, the Assistant Secretary for ETA should recover:
 - \$327,448 LSG received for childcare payments that exceeded the supplemental amounts in the grant agreement, and other costs for childcare services not specified in the grant agreement (**Finding 1b**);
 - \$35,210 for duplicate childcare payments Savannah reimbursed LSG related to Savannah's nontraditional childcare program (**Finding 1c**);
 - \$228,707 for unreasonable transportation costs Savannah reimbursed CAT related to 6,823 trips provided to WtW participants. Of the remaining 9,510 trips provided to WtW participants, ETA should evaluate costs associated with these trips for reasonableness (**Finding 1d**);
 - \$92,339 for salaries and fringe benefits paid to Laidlaw employees as van drivers rather than WtW participants as intended (**Finding 1e**);
 - \$39,760 for unauthorized transportation and registration fees Savannah reimbursed LSG (**Finding 1f**); and
 - \$6,471 for auto related expenses on behalf of 18 ineligible WtW participants in the Goodwill Industries Wheels-to-Work program (**Finding 1g**).

Although recommendations 1 and 2 relate to separate findings, ETA must consider the amount of questioned costs linked to these recommendations concurrently to avoid any recovery of duplicate questioned costs. Both recommendations contain questioned costs that are common to three of the six contracts that were not competitively awarded. See Exhibit A for Schedule of Questioned Costs.

If ETA resolves not to question the \$2,530,934 in contract costs that was not awarded in an open and competitive process, ETA will still need to consider if \$729,935 of the \$2,530,934 questioned costs was unauthorized or unreasonable.

3. We recommend the Assistant Secretary for ETA recover questioned costs of \$322,549 related to a follow-on contract of Savannah's nontraditional childcare

program that was competitively awarded. Questioned costs relate to childcare payments of \$278,615 that exceeded costs per child and other childcare costs not specified in the grant agreement; and \$43,934 in duplicates payments for childcare services beyond the authorized full workweek (**Finding 1b and Finding 1c**).

4. We recommend the Assistant Secretary for ETA recover question costs of \$2,947 for unsupported costs to cover overage of accumulated expenditures, and require Savannah to take steps to ensure adequate financial and administrative controls are put in place to ensure DOL funds are expended in accordance with the applicable federal regulations and that all contract costs related to DOL programs are necessary, reasonable, and allowable pursuant to the terms of the grant and contract agreement (**Finding 1h**).

Savannah's Response

The City of Savannah provided a detail response to each finding in the draft report. With the exception of finding **1d**, the City of Savannah requests that all questioned costs be changed to administrative findings. In its conclusion, Savannah summarized its response to OIG's draft report in two paragraphs. These paragraphs are provided below.

In summary, the City of Savannah and the Savannah community were concerned about the prospect of hundreds of persons in our community facing the loss of welfare benefits. The Welfare-to-Work Competitive grant was intended to provide Savannah residents with services necessary to make a successful transition from welfare to work. USDOL, in the grant solicitation, made clear that obtaining a competitive grant would be based on grantees working in partnership with service providers in their community. The City of Savannah assembled a competitive grant with community partnerships; the grant submission clearly showed the service providers, specifically described the services, and provided budgets and service arrangements for program services. The City of Savannah was awarded the grant and carried out the program in accordance with the information submitted to USDOL.

Although we have respectfully submitted summarized rebuttals to each of the finding identified in the Draft Report, we are prepared to respond to USDOL/OIG and USDOL/ETA with a more detailed level of response providing all supporting documentation, to any extent that may be required. As per our rebuttal we are requesting that finding **1a, 1b, 1c, 1e, 1f, 1g, and 1h** be changed from questioned costs to administrative findings. We also request that finding **1d** be removed from the draft audit [report].

OIG Conclusion

We have considered the City of Savannah's response to the draft report. No additional information was provided that materially affects the report. Therefore, the report findings remain basically unchanged. The recommendations will be resolved during DOL's formal audit resolution process.

Objective 2 - Did Savannah comply with participant reporting requirements by submitting accurate and reliable performance data, and serve eligible participants to meet program objectives?

Finding 2 - Savannah Did Not Comply With Participant Reporting Requirements by Submitting Inaccurate and Unreliable Performance Data.

Savannah's participant performance data reported to the Georgia Department of Labor (GDOL) and subsequently to ETA was inaccurate and unreliable. We found that 62 percent of selected WtW participant performance data was either misreported or omitted from Savannah's Quarterly Financial Status Reports (QFSRs). Furthermore, we determined Savannah was missing official participant files and misclassified participants' eligibility status.

Finding 2a: Savannah reported inaccurate performance data on QFSRs.

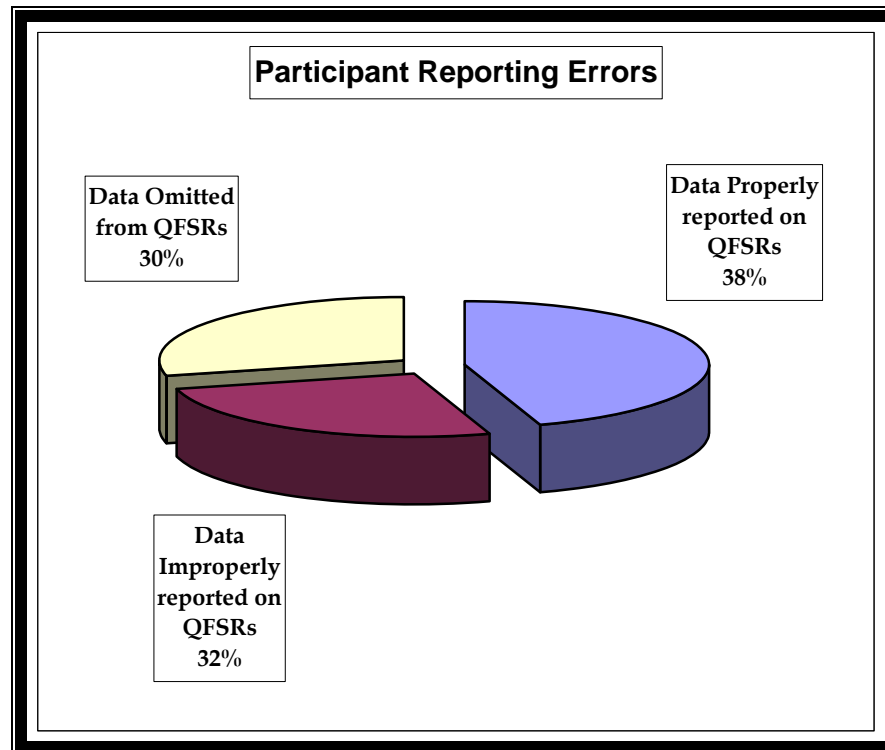
Savannah's participant performance data reported to GDOL and subsequently to ETA was inaccurate and unreliable for determining program results. Savannah entered WtW participant performance data into the State (or GDOL) Management Information System (MIS). GDOL utilized this data to prepare QFSRs for both WtW competitive and formula grants. Because Savannah received WtW competitive grant funds directly from ETA, Savannah was required to report the QFSRs related to these funds directly to ETA. GDOL was responsible for providing QFSRs to ETA related to WtW formula grant funds since these funds, passed through the State.

We audited key participant performance data on Savannah's June 30, 2002 QFSRs. The results of our audit showed that 62 percent of selected WtW participant performance data reported was either misreported or omitted. This result was based on a review of participants' official files and the QFSR results submitted by Savannah.²⁶ According to GDOL and Savannah officials, the errors likely occurred because participant enrollment data was improperly entered into the Georgia Workforce System (GWS) at the One-Stop center during the participant enrollment process or after the State converted data from the MIS to the GWS. GDOL officials explained that data was either lost or transferred incorrectly when the State converted data between the two state information systems. Neither GDOL nor Savannah followed existing controls to

²⁶ We randomly sampled 82 files, which our estimates were based on an examination of these files with a 90 percent confidence level.

validate the data entered at the One-Stop centers. We conclude that the lack of data validation contributed to the errors identified in our review of participant data.

The graph below illustrates the error rate of participant reporting.



We randomly selected 82 participants, out of a universe of 1,394, and verified their status as reported on applicable QFSR, to supporting documentation in each participant's official file. In total, we identified 80 instances where the reported information was incorrect on QFSRs:

- Item 26 - Placed in Unsubsidized Employment;
- Item 27 - Employed in Unsubsidized Employment When Entering WtW; and
- Item 29 - Retained 6 Months (2 Quarters) in Unsubsidized Employment.

Item 26, Placed in Unsubsidized Employment

Twenty-eight participants were either incorrectly reported on or omitted from Item 26, Placed in Unsubsidized Employment. Eight participants were shown as placed; however, there was no supporting documentation to substantiate an unsubsidized placement. The remaining 20 participants had documentation supporting an unsubsidized placement; however, those individuals were not reported on the QFSR.

Based on our random sample at the 90 percent confidence level, we estimate that 137 participants would be claimed in error and 340 participants would be omitted in error on the QFSR.²⁷

Item 27, Employed in Unsubsidized Employment When Entering WtW

Twenty-six participants were either incorrectly reported on or omitted from Item 27, Employed in Unsubsidized Employment when Entering WtW. Twenty participants were incorrectly reported as being in unsubsidized employment when entering WtW. The remaining six participants had documentation supporting an unsubsidized employment when entering WtW, yet those individuals were not reported on the QFSR. Based on our random sample at the 90 percent confidence level, we estimate 340 participants would be claimed in error and 102 participants would be omitted in error on the QFSR.²⁸

Item 29, Retained 6 Months (two quarters) in Unsubsidized Employment

Twenty-six participants were either incorrectly reported on or omitted from Item 29, Retained 6 months (two Quarters) in Unsubsidized Employment. Thirteen participants were incorrectly reported as being in unsubsidized employment for two quarters after placement. The remaining 13 participants had documentation supporting an unsubsidized retention, yet those individuals were not reported on the QFSR. Based on our random sample at the 90 percent confidence level, we estimate 222 participants would be claimed in error and 222 participants would be omitted in error on the QFSR.²⁹

On August 9 and 10, 2001, ETA conducted a review of the programmatic and administrative elements of Savannah's WtW grants. ETA determined that Savannah did not have a reporting system in place to track participant status. Consequently, ETA was unable to verify the participant data previously submitted on the QFSR related to

²⁷ Item 26 - The sampling precision of the projection for participants claimed in error is plus or minus 74; and plus or minus 106 for participants omitted in error.

²⁸ Item 27 -The sampling precision of the projection for participants claimed in error is plus or minus 106; and plus or minus 64 for participants omitted in error.

²⁹Item 29 - The sampling precision of the projection for participants claimed in error is plus or minus 91; and plus or minus 91 for participants omitted in error.

the WtW competitive grants. According to ETA's monitoring report dated August 30, 2001:

The information submitted on the Quarterly Financial Status Report is questionable. The WtW grantee and One-Stop Center were unable to verify what activities the participants were enrolled in without looking through each participant's folder. Further, the staff that is responsible for WtW reporting is new and unfamiliar with the new WtW reporting requirements.

Subsequently, ETA required Savannah to train service providers in case management, and consistently track and document WtW services in each participant's folder.

According to the GDOL and Savannah officials, these reporting errors were likely due to data problems encountered when the State's MIS, which included the WtW participant performance data was converted to the GWS. This conversion was completed in October 2001.

Data for the QFSRs originates from the GWS. The data is entered into the GWS locally at the One-stop centers for each WtW participant.³⁰ GDOL extracts participant data used to prepare QFSRs and submits data related to WtW formula and WtW competitive grants to ETA and Savannah respectively. Savannah is responsible for submitting participant data it receives from GDOL to ETA for the WtW competitive grant. Though controls were in place, neither GDOL nor Savannah followed existing controls to validate participant data entered at the One-Stop centers. We conclude that the lack of data validation, at both time of data entry and at preparation of QFSRs, contributed to the errors identified in our review of participant data.

Finding 2b: Official participant files were missing.

We selected a sample of participant files related to WtW formula grants. A total of 9 replacement files were needed in order to obtain a sample of 82 for our review. Seven of the original 82 participant files were missing and required replacement selection, while 2 of the replacement files requested were also missing and had to be replaced. According to Savannah, these files were lost during a prior audit.

Based on the unavailability of these 9 participant files, we estimate 125 files are missing from a universe of 1,394. Savannah is in violation of 29 CFR 97.42(b), which specifies that all records pertinent to a grant agreement must be retained for 3 years from the date of the final expenditure report.

³⁰ Reporting was not separately tested for the competitive participants since the participants and the process were the same.

Finding 2c: WtW participants were misclassified.

We determined nine participants in our sample were misclassified as “hard-to-employ” (70 percent), rather than participants who have characteristics of long-term dependency (30 percent) for which they qualified.³¹ After we brought this matter to Savannah officials’ attention, they properly reclassified the participants. Proper classification of participants is important because at least 70 percent of WtW funding must be spent on TANF recipients who will have the most difficulty transitioning into employment (70 percent participants). Based on our random sample at the 90 percent confidence level, we estimate 153 participants (11 percent) are misclassified in the WtW 70 percent category. As a result of this misclassification, participant performance and financial results were improperly reported to ETA. As previously noted in Finding 2a, Savannah reported inaccurate data on its QFSR. According to Savannah officials, these misclassifications occurred as a result of clerical errors and the conversion of data from the MIS to the GWS.

Finding 2d: Participant eligibility was within an acceptable level.

Using random sampling techniques, we determined that the number of ineligible participants was at an acceptable level as it relate to the WtW formula grants. We selected a sample of 82 participant files from a universe of 1,394. Based on our verification of participant eligibility determination, we determined three participants were ineligible for the WtW program because they did not meet applicable WtW eligibility requirements as it relate to individuals characterized as hard-to-employ and long-term welfare dependency. The three ineligible participants represent approximately 3.7 percent of our sample, which we conclude is an acceptable level of compliance with program eligibility requirements.

Savannah’s participant reporting did not comply with ETA’s reporting guidelines. Performance driven requirements demand accurate and complete program data and therefore, validity of program data must be addressed. Reliable data is also necessary to measure the program’s outcomes and to assist program officials and Congress in setting the direction and emphasis of employment and training programs. Care should be taken when reporting results of participants included in multiple programs such as TANF and WtW, to ensure reports strictly adhere with reporting guidelines.

Recommendation

5. We recommend that the Assistant Secretary for ETA ensure the State of Georgia and the City of Savannah follow existing controls for the proper preparation of QFSRs and the validation of participant data for DOL programs.

³¹ The percent categories represent the amount of WtW grant funds that could be spent for each group of individuals.

Georgia Response

GDOL had controls in place for proper preparation of QFSR's and data validation for DOL programs since 1998, despite the lack of reporting instructions from the federal level. These instructions were issued to local areas in 1998 and 1999 to assist with reporting and data collection for WtW QFSR's.

OIG Conclusion

The State of Georgia provided additional information to show that controls were in place for the preparation of participant data reporting and validation. However, based on the results in finding **2a** to which GDOL's response is applicable, we conclude that controls were not always followed. This additional information does not materially affect finding **2a** and OIG's recommendation as presented in the draft report. The recommendation will be resolved during DOL's formal audit resolution process.

Savannah Response

The City of Savannah did not disagree with findings **2a** through **2d**. Savannah officials explained the challenges they encountered trying to report accurate participant performance data, and what steps they have since taken to improve the accuracy of this data.

OIG Conclusion

We have considered the City of Savannah's responses to findings **2a** through **2d** of the draft report and determined that no additional information was provided that materially affects the report. Therefore, the report findings remain unchanged. The recommendation will be resolved during DOL's formal audit resolution process.



Elliot P. Lewis
October 4, 2004

Exhibits

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EXHIBIT A

SCHEDULE OF QUESTIONED COSTS		
DESCRIPTION	FINDING	AMOUNT
Recommendations 1 and 2		
QUESTIONED COSTS RELATED TO 6 CONTRACTS NOT COMPETITIVELY BID		
Criteria: OMB Circular A-87 Grant/Contract Provisions		
29 CFR 97.20		
Recover Expenditures for 6 Contracts Not Competitively Bid	1a	\$2,530,934
Recover costs for other reasons related to 3 of the 6 contracts:		
Unauthorized Childcare Services	1b	\$ 327,448
Duplicate Payments for Childcare Services	1c	35,210
Unreasonable Transportation Services	1d	228,707
Ineligible Participants: Van Driving Training Program	1e	92,339
Unauthorized Registration and Transportation Fees	1f	39,760
Ineligible Participants: Wheels-to-Work Program	1g	<u>6,471</u>
Subtotal		<u>\$729,935</u>
Recommendation 3		
QUESTIONED COSTS RELATED TO CONTRACT COMPETITIVELY BID		
Criteria: OMB Circular A-87 Grant/Contract Provisions		
Unauthorized Childcare Services	1b	\$278,615
Duplicate Payments for Childcare Services	1c	<u>43,934</u>
Subtotal		\$322,549
Ineligible Participants; Costs used to recover expenditure overage		<u>2,947</u>
Total Questioned Costs		<u>\$2,856,430</u>

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EXHIBIT B

Contracts Not Competitively Procured				
Contract No.	Contract Name	Contract Period	Total Amount Awarded	Expended through 12/31/02³²
99-08C	Lutheran Services of Georgia	05/01/99 to 12/31/02	\$1,116,433	\$1,116,433
99-09C ³³	Chatham Area Transit	08/09/99 to 12/20/01	888,643	840,449
99-11C	Goodwill Industries (Wheels to Work)	07/01/99 to 12/31/02	114,309	114,309
99-07C	Housing Authority of Savannah	05/07/99 to 03/31/01	21,592	16,979
99-09C	Small Business Assistance Center	06/01/99 to 03/31/01	122,275	17,019
99-10C	Work Activity Center	07/01/99 to 12/31/02	550,655	425,745
TOTAL			<u>\$2,813,907</u>	<u>\$2,530,934</u>

³² Although three of the contracts expired in 2001, there were some financial transactions in PY 2002 to re-distribute WtW funds from the 70 percent to the 30 percent category.

³³ Savannah inadvertently assigned Chatham Area Transit and Small Business Assistance Center the same contract number (99-09C).

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Appendices

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APPENDIX A

Background

Purpose of the Welfare-to-Work Grant

WtW legislation passed in August 1997 authorized the Secretary of Labor to provide \$3 billion in WtW grants to states and local communities.³⁴ These grants were designed to target welfare recipients with the least skills, education, employment experience and those who live in high poverty areas. In fact, WtW is specifically designed to supplement the TANF program managed by the Department of Health and Human Services. WtW funding strives to provide transitional assistance by helping hard-to-employ TANF welfare recipients and eligible noncustodial parents find unsubsidized jobs and achieve economic self-sufficiency.

To receive WtW formula grant funds, a state submits a plan to administer a WtW program. States request define the targeted population it plans to help, and list each regional location within the state designated to participate. The Secretary of Labor then determines whether or not the plan meets all statutory requirements and approves or disapproves each grant award accordingly. As 1 of 20 participating areas in Georgia, Savannah received its first WtW formula grant in 1998 for approximately \$1.6 million.

Subgrantees designated by the State to receive formula grants, such as Savannah, assume all responsibilities required to manage the Federal funds. Specific grant program responsibilities are defined in the applicable CFR and OMB Circulars. Two areas key to each WtW formula grant include financial management and participant reporting.

Unlike WtW formula grants, WtW competitive grants were directly awarded to the grant recipients from ETA. In addition, there were no matching requirements for WtW competitive grants.

Financial Management. According to 29 CFR 97.20 (Standards for Financial Management Systems), fiscal control and accounting procedures must be sufficient to permit the preparation of accurate QFSRs due at the end of each quarter, and permit the tracing of funds to all related program expenditures. In general, a subgrantee must have an adequate financial management system that includes internal and management controls necessary to ensure grant fund expenditures are allowable and authorized. We think the gateway to an effective

³⁴ A total of \$3 billion was appropriated for this program: \$1.5 billion awarded in each of FYs 1998 and 1999. There are two kinds of grants: (1) WtW Formula grants to states and (2) WtW Competitive grants directly to local communities.

financial management system is proper procurement practices. This establishes the foundation to ensure an entity's costs will likely be allowable and authorized.

Allowable Cost: Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

Budget Control: Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

Internal Control: Effective control and accountability must be maintained for all grant and subgrant cash, real, and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Participant Reporting. WtW grant recipients must report participant data in accordance with instructions issued by the Employment and Training Administration (ETA). Required data must be submitted as a component of the QFSR. Information in each quarterly report includes the number of participants:

- served;
- terminated from the program;
- placed in subsidized and unsubsidized employment;
- who retained a job for six months; and
- whose earnings increased six months after placement.

Savannah's WtW Formula and Competitive Grant Programs.

Savannah was the official grant recipient of the WtW funds and assumed fiduciary responsibility. Effective July 1, 2000, the Coastal Workforce Services, a department of Savannah, replaced SeaCoast Workforce Development Board as the administrative entity for Savannah's WtW grant programs.

Savannah received three WtW formula grants for a total of \$3,400,958. In May 1998 and September 1999, Savannah received two WtW formula grants in the amounts of \$1,616,716 and \$1,636,757 to serve a nine county Coastal Region³⁵ in the State. In August 2002, Savannah received a third formula grant in the amount of

³⁵ The nine county region includes Bryan, Bulloch, Liberty, Long, Effingham, Chatham, Glynn, McIntosh and Camden counties.

\$147,485 to help cover accumulated expenditures that exceeded the PY 1999 WtW formula grant amount. By June 2002, Savannah had expended all of its \$3,400,958 WtW formula grant funds.

In January 1999, Savannah received a WtW competitive grant in the amount of \$4,067,000 from ETA to serve residents of Chatham County only. As of March 31, 2004, Savannah had expended and reimbursed \$3,937,295 of these funds. The remaining balance of \$129,705 was unobligated.

The competitive grant was a follow-on grant to the WtW formula grant solely for the residents of Chatham County. Savannah updated the number of participants it served to 1,394 for our audit period.³⁶

³⁶ The universe of 1,394 includes all participants served under both WtW Competitive and Formula grants, and includes 21 participants that reenrolled after terminating the WtW program. Savannah reportedly served 785 from the PY 1998 Formula grant; 1,323 from the PY 1999 Formula grant; and 609 participants from the WtW Competitive grant as of December 2002. Because many participants received services funded by both grant types, the combined total number of participants served for each grant exceeds 1,394.

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APPENDIX B

Objectives, Scope, Methodology, and Criteria

Objectives

Our objectives were to determine if Savannah complied with regulatory requirements for WtW grants in the areas financial management and participant reporting requirements. To accomplish these objectives, we designed our audit tests to answer the following questions:

- Did Savannah adequately manage WtW grant funds?
- Did Savannah comply with mandatory participant reporting requirements by submitting accurate and reliable performance data; and serve eligible participants to meet program objectives?

Scope and Methodology

The OIG conducted a performance audit of the \$7,467,958 federally-funded WtW grants provided to Savannah under the WtW competitive and formula grants for Program Years 1998 and 1999. The \$7,467,958 included three WtW formula grants for a total of \$3,400,958 after modifications; and one WtW competitive grant in the amount of \$4,067,000.³⁷

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States and included such tests, as we considered necessary to satisfy the audit objective. The audit was primarily performed at the Coastal Workforce Services agency, Savannah, Georgia. The audit examined Savannah's WtW formula and competitive grants awarded in PY 1998 and PY 1999.³⁸ Transactions were examined using both statistical and judgmental sampling techniques as described below.

Audit fieldwork was performed in Savannah, Georgia, during the period of October 2003 through October 2004. In general, our audit tests covered the area of Financial Management. We examined transactions that occurred primarily during October 1998 through June 2003. Savannah was judgmentally selected because its accumulated expenditures exceeded its PY 1999 WtW formula grant award.

³⁷ The three WtW Formula grants were awarded in May 1998, September 1999, and August 2002; and the WtW Competitive grant was awarded in January 1999.

³⁸ These grants, as originally awarded, allowed 3 years to complete grants activities. The provisions in the DOL/HHS/Education Appropriations Act of 2001 extended the life of the grant for an additional 2 years.

To gain an understanding of the WtW formula and competitive grants we reviewed applicable legislation, regulations, and reporting guidelines. We interviewed staff members from CWS responsible for the day-to-day operations of Savannah's WtW grant programs. Areas of discussions included, but were not limited to, accounting and administrative controls, financial and participant reporting, and procurement. We also reviewed Savannah's WtW program plan, policy and procedure manuals, and board meeting minutes.

We reviewed audit reports issued under OMB Circular A-133 (Audits of States, Local Governments, and Non-Profit Organizations) and ETA's monitoring report on Savannah's programs funded under the competitive grant to identify WtW issues that impact the objective of our audit. We relied on computer-generated data when performing our audit tests, and in accordance with audit guidelines, we tested the validity and reliability of the data. Specific audit tests were performed in the areas of financial management and participant reporting requirements.

FINANCIAL MANAGEMENT

Audit tests of Savannah's financial management practices, as it relates to WtW funds, focused on three areas: cash management, reporting, and expenditures. Our methods used to examine each area and specific information about each test is presented below.

Cash Management tests were designed to determine whether cash drawn by Savannah occurred when valid expenditures existed as prescribed by 29 CFR 97. Specifically, we reviewed all (33) of the WtW formula cash drawdowns totaling \$3,400,958 that occurred from November 1998 to October 2002, and determined whether expenditures were valid by examining Savannah's general ledger.³⁹

In addition, we verified these funds were deposited⁴⁰ into WtW accounts. Savannah drew down competitive grant funds in a similar manner as WtW formula grant funds, since funds were drawn down after expenses had been incurred.

Reported cumulative expenditures⁴¹ on the QFSRs were compared to Savannah's general ledger entries. Specifically, we compared the total expenditures of

³⁹ We found no problems during a total review of the WtW Formula grant drawdowns. We did not test any WtW Competitive grant drawdowns. After comparing the draw down techniques of the two grant types, we found little difference in the methodology. We did not test the Competitive Grant cash drawdowns as prescribed by 29 CFR 97.20.

⁴⁰ A single bank account was established for all Department of Labor grant funds and accordingly included other grants outside the scope of our audit, such as WIA. In order to account for WtW deposits, tests were designed to identify all non-WtW grant deposits occurring on the same day as a WtW deposit.

\$6,740,874 reported on the June 2002 and December 2002 QFSRs for the WtW formula and competitive grants, respectively, to the general ledger entries posted during July 1998 to December 2002 in order to assess Savannah's compliance with ETA's instructions included at 20 CFR 645.240.⁴²

Expenditures were tested to assess compliance with 20 CFR 645, 29 CFR 97.20, WtW Grants; Final Rule; Interim Rule; and OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments requirements that expenses are reasonable and allowable. Audit tests were designed to review both administrative and program costs.

Administrative costs for July, August, and September 2000 were selected for review because this quarter reported a large amount of cost in each grant year (FYs 1998 and 1999) and contains costs in many element reported on Savannah's QFSRs. QFSRs for both WtW competitive and formula grants were examined to ensure the reported⁴³ administrative costs did not exceed 15 percent of the grant as prescribed by ETA's instructions included at 20 CFR 645.235 (a). We judgmentally selected and tested reported payroll expenditures totaling \$8,562 of \$64,694 related to both WtW competitive and formula grants. For the employee payroll expenditures, we determined whether salaries charged to the WtW grant agreed with salary data (to include fringe benefits) within each personnel file, net pay agreed with direct deposit listings, time/attendance records were available and certified by a supervisor, and employees performed duties that supported the WtW program. We traced general ledger entries to employee time sheets to verify the propriety of all charges.

Contracts were awarded including modifications totaling \$6,239,642 for 24 WtW formula and WtW competitive contracts. The contracts were reviewed to determine if the contracts were competitively bid.

We also reviewed contracts expenditures totaling \$1,238,812 paid between October 1998 and June 2003 related to 8 of the 24 contracts.⁴⁴ To determine whether the costs were allowable, necessary, and reasonable as described in WtW,

⁴¹ Formula grant cumulative expenditures of \$1,616,716 and 1,784,242 through June 2002 applicable to grant program years 1998 and 1999, respectively, and WtW Competitive grant cumulative expenditures of \$3,339,916 through December 2002.

⁴² 20 CFR 645.240 requires WtW Formula grant reports be submitted in accordance with ETA Instructions contained in TEGL 11 – 97, change 2 (Instructions for Reporting Welfare-to-Work Formula Grants Financial and Participant Data).

⁴³ WtW Competitive grant costs were taken directly from the WtW Competitive Grant QFSR and WtW Formula grants costs were taken from the QFSR Georgia WtW Grant.

⁴⁴ The eight contracts included three contracts funded with WtW Formula grants (\$46,649) funds and five contracts funded with the WtW Competitive grant (\$1,192,163) funds.

Financial Management, and procurement regulations, OMB Circular A 87, the grant agreements and contracts, we judgmentally selected 8 of the 24 contracts with high dollar value.

Non-traditional Childcare Program: Savannah awarded LSG two contracts for a total of \$1,574,433 (\$1,116,433 and \$458,000) from its WtW competitive grant funds to operate this program. The two contracts covered May 1999 to June 2003. We requested and examined all related invoices for nontraditional childcare costs, which totaled \$871,170. We determined whether the amounts billed and reimbursed complied with the authorized grant amount per child. We identified amounts that were in excess of the cost per child, including payments that exceeded the approved supplemental amounts, duplicate payments, payments for services to children not authorized in the grant, and other unauthorized costs.

We consider our approach for questioned costs related to the childcare program to be somewhat conservative. For example, our analysis excluded the costs of childcare services for less than 1 week. These costs were based on daily rates rather than weekly rates clearly defined in the grant agreement and established by LSG. We did not consider that daily rates for childcare services would materially affect the results of our analysis. We also excluded sick care costs from our analysis as these costs were based on daily rates. Our basis for questioning costs was based entirely on a comparison of the grant agreement amounts and the invoiced amounts paid to childcare providers.

Transportation Costs: We also examined the reasonableness of CAT's costs for transportation services because costs appeared excessive as this costs was based on CAT's subcontractor (Laidlaw) operational costs rather than the cost of each trip. We requested the 'Summary Manifests' for 16,333 trips provided to WtW participants during the contract period of August 1999 through December 2001. The subcontractor (Services, Inc.) that provided the transportation services did not maintain summary data from August 1999 to June 2000. Based on CAT's initial reports, they could provide summary data for 9,619 of the 16,333 trips. The estimated cost for the 9,619 trips was \$414,722 (or an average cost of \$43.11 per trip). We obtained transportation manifests covering the period June 5, 2000, to December 20, 2001.⁴⁵

We randomly selected 140 trips for review from a universe of 6,823 trips for which summary data was available. We subsequently reconstructed actual miles driven per trip to determine trip averages, both distance and cost. Afterward, we computed average historical trip costs by dividing trips into total dollars paid for the contract. The average trip cost was compared to the trip cost available from a commercial carrier that provides taxi and shuttle services.

⁴⁵ Summary data was available for 6,823 of the 16,333 trips provided during the contract period.

Participants Eligibility. We also reviewed the files of individuals that participated in Savannah's Van Pool Driving Training program and its Wheels-to-Work program. We verified whether individuals' eligibility determination were proper. We reviewed financial records for those individuals we determined to be ineligible for these programs and identified the related costs.

PARTICIPANT REPORTING REQUIREMENTS

We randomly sampled 82 official files⁴⁶ from a universe of 1,394 participant to determine whether the June 30, 2002 QFSRs for the WtW competitive and formula grants⁴⁷ were accurate and reliable. To test the accuracy of the June report, we reviewed participant case files and verified each of the 82 participant's reported status.⁴⁸ In addition to reported status accuracy, we also determined if individuals met eligibility requirements and had received an in-depth assessment. For eligible individuals, we also determined whether Savannah had properly categorized the hard-to-employ participants in the 70 percent grouping. Requirements for participant reporting, eligibility, in-depth assessment, and placing a participant in the 70 percent category are defined⁴⁹ in 20 CFR 645.

QFSR line items were evaluated for compliance with "Instructions for Reporting WtW Formula Grants Financial and Participant Data" issued by ETA for the following line items:

- Item 24 - Participants Served;
- Item 26 - Placed in Unsubsidized Employment;
- Item 27 - Employed in Unsubsidized Employment When Entering WtW; and
- Item 29 - Retained 6 Months (two quarters) in Unsubsidized Employment.

Criteria

Prior to January 11, 2001, the Interim Rule at 20 CFR 645 (WtW Grants) was used as a reference for state and local projects. Effective January 11, 2001, the Interim

⁴⁶ OIG statistical estimates were based on the review of 82 case files and used a 90 percent confidence level. In order to review 82 files, 91 files had to be selected because 9 files were missing.

⁴⁷ Audit tests examined participants served under both WtW Competitive and Formula grants. We did not distinguish participants between the types of grant as the basic eligibility requirements were the same.

⁴⁸ Participant status in this sense means proper enrollment, categories, placement, and retention.

⁴⁹ Effective July 1, 2000 the eligibility criteria was significantly amended through the passage of the Consolidated Appropriations Act for FY 2000 that contains the WtW and Child Support Amendments of 1999. The effective eligibility criteria were determined based on the date of eligibility determination indicated in the case files.

Final Rule was issued. Federal regulations at 29 CFR 97 (Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments) outline financial management and procurement standards for state and local governments. OMB Circular A 87 (Cost Principles for State, Local and Indian Tribal Governments) requires that expenses are reasonable and allowable.

APPENDIX C

ACRONYMS AND ABBREVIATIONS

CAT	Chatham Area Transit
CFR	Code of Federal Regulations
CWS	Coastal Workforce Services
DFCS	Department of Family and Children Services
DOL	U. S. Department of Labor
ETA	Employment and Training Administration
FY	Fiscal Year
GDOL	Georgia Department of Labor
Goodwill Industries	Goodwill Industries of Coastal Empire, Inc.
GWS	Georgia Workforce System
Laidlaw	Laidlaw Transit Services, Inc.
LMG	Lutheran Ministries of Georgia
LSG	Lutheran Services of Georgia
MIS	State Management Information System
OIG	Office of Inspector General
OMB	Office of Management and Budget
PY	Program Year
QFSR	Quarterly Financial Status Report
Savannah	City of Savannah
SWDB	SeaCoast Workforce Development Board
TANF	Temporary Assistance for Needy Families
WtW	Welfare-to-Work

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GDOL'S RESPONSE TO DRAFT REPORT

APPENDIX D



GEORGIA DEPARTMENT OF LABOR

148 ANDREW YOUNG INTERNATIONAL BLVD., N.E. ♦ ATLANTA, GEORGIA 30303-1751

MICHAEL L. THURMOND
COMMISSIONER

September 23, 2005

Mr. Dwight E. Gates
Assistant Regional Inspector General for Audit
Office of the Inspector General
Atlanta Regional Audit Office
61 Forsyth Street, S.W.
Room 6T20
Atlanta, Georgia 30303

RE: Draft Report, Performance Audit of City of Savannah, Georgia

Dear Mr. Gates:

In response to the above referenced draft report, the Georgia Department of Labor is submitting the attached response and documentation in regards to proposed recommendation #5 (page 5 and page 29) which states that the State of Georgia should take steps to ensure proper preparation of QFSRs and the validation of participant data for DOL programs. As noted in the response, the Department implemented internal controls for Welfare-to-Work in 1998, and updated these controls in the form of two Instruction Manuals, issued by the Department in 2000 and 2001.

If you have any questions concerning this matter, please contact Nancy Meeden at (404) 232-3797.

Sincerely,

Linda T. Johnson /NFM

Linda T. Johnson, Assistant Commissioner
Career Development Services

LTT:nfm

cc: Cindi Hogue, Coastal Workforce Services

An Equal Opportunity Employer/Program

GDOL Response to OIG Audit Recommendations

From Page 5, Recommendation 5 (Executive Summary):

Require that the State of Georgia and Savannah to implement controls that ensure proper preparation of QFSRs and the validation of participant data for DOL programs.

From Page 29, Recommendation 5 (Full Report):

We recommend that the Assistant Secretary for ETA require the State of Georgia and Savannah implement controls for proper preparation of QFSRs and the validation of participant data for DOL programs.

Response from GDOL:

The Georgia Department of Labor (GDOL) had controls in place for proper reporting preparation of QFSRs and validation of data for DOL programs since 1998.

The State of Georgia implemented data and reporting controls at the beginning of WtW in 1998, despite the lack of reporting instructions at the federal level. Initially, the Department of Human Services was required to develop reporting procedures. However, this changed with the 1999 WtW amendments, and the responsibility of this function moved to the Department of Labor. Revised Financial and Participant reporting requirements (for both formula and competitive funds) were not issued until April 2001, almost three years after the implementation of WtW. The April 2001 requirements also included data elements that were not previously required to be reported by WtW grantees.

Even without formal instructions from the federal level, the Georgia Department of Labor issued instructions to local areas in 1998 and 1999 to assist with reporting and data collection for WtW QFSRs. Copies of memos and an e-mail sent to the local areas by the Georgia Department of Labor are attached. The Department revised these instructions in 2000 in response to the 1999 WtW amendments, and again in 2001 after the issuance of the final reporting requirements, and re-issued the instructions in the form of Instruction Manuals. As both the 2000 and 2001 Instruction Manuals are over 100 pages each, we have attached a copy of the cover pages and table of contents of each manual. Full copies of the manuals are available, upon request.

In November 2001, three years after the implementation of WtW and after USDOL issued WtW reporting instructions, USDOL developed a comprehensive agency-wide data validation system that included WtW. The National WtW office contracted with Mathematica Policy Research, Inc. to develop the technical assistance tools related to WtW reporting, performance and data validation, and asked WtW grantees to use these tools. In September 2002, the National WtW office sent a letter to all WtW grantees to inform them that all grantees would be required to use the data validation tool in the upcoming year. However, due to the many changes in data and reporting requirements, these WtW grantees were not able to use these tools as a means of performance and data validation. In April 2003, the USDOL Regional Office staff announced that the data validation study, as it related to WtW, was canceled. The WtW grants were then rescinded by Congress and the President in January 2004.




GEORGIA DEPARTMENT OF LABOR

148 INTERNATIONAL BLVD., N.E. ♦ ATLANTA, GEORGIA 30303-1751

MARTI FULLERTON
COMMISSIONER

MEMORANDUM

TO: JTP Administrative Contacts
State Agency Contacts

FROM: Andrea Harper 
Assistant Commissioner
Job Training Division

DATE: July 13, 1998

SUBJECT: Applications and Enrollments for Welfare-to-Work Activities

This memo is written as a follow-up to JTP I&A No. 98-14, which provided instructions on the use of MIS forms for JTPA and Welfare-to-Work activities. In that memo, we asked you to use the new application form for WtW clients, even though it will not be possible to enter this information into the MIS until after the computer programs for the new forms have been developed in approximately three months. Data would then be entered once the computer programs have been established.

Please understand that this is just **one option** that may be used for intake during the start-up of the Welfare-to-Work program. With this option, while data entry volume could be high, keying would be much easier given known changes in data entry transactions, i.e. an additional page as well as data fields located in different positions than on the current application. Additionally, experience is that less time is required to key a full application than to correct/update an existing application. The SDA will need to consider potential WtW volume and data entry capability prior to choosing this option. A comparison to Title II-B data entry, while expected to be much heavier than WtW, may provide a measure of data entry capability.

A **second option** that you may wish to consider is to enter the information from the WtW application form into the existing JTPA system. You would only be able to enter the fields which are currently common to both. If you choose to do this, one of the "For SDA Use Only" blocks at the bottom of the first screen of the JTPA application transaction should be coded to indicate that the applicant is also eligible under WtW. Please enter a "W" in the first space of block six to

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SAVANNAH'S RESPONSE TO DRAFT REPORT

APPENDIX E



CITY OF SAVANNAH - Office of the City Manager

P.O. Box 1027 • Savannah, Georgia 31402

912-651-6415 • FAX 912-238-0872
TDD - 912-651-6702

September 26, 2005

Mr. Michael K. Yarbrough
Regional Inspector General for Audit
U.S. Department of Labor – OIG
61 Forsyth Street, S.W., Room 6T20
Atlanta, Georgia 30303-3104

Re: Draft Audit Report / Welfare to Work Grants for PY 1998 and 1999
Audit Report No. 04-05-004-03-386
City of Savannah

Dear Mr. Yarbrough:

This document comprises the City of Savannah's formal response to the draft audit report. We appreciate the opportunity to work with the USDOL/OIG team members to resolve any audit findings.

The City of Savannah successfully utilized these grant funds to provide much needed job preparation and supportive services to over 1300 eligible community residents who faced the loss of welfare benefits.

The grants were awarded to the City of Savannah and our partner agencies in 1999 to provide specific coordinated services, as had been stipulated by USDOL in its Request for Proposals. The City of Savannah carried out these services between 1999 and 2003 in accordance with our proposal including services to be provided, partner agencies that would provide services, budgets, costs of services, and service arrangements.

We hope that this communication is fully responsive to your draft audit report. Please let us know if any additional information is needed and we hope to meet in person to review our response.

Thank you very much for your consideration.

Sincerely,

Michael B. Brown,
City Manager

Cc: Linda T. Johnson
Assistant Commissioner
Georgia Department of Labor

Introduction

The City of Savannah received a total of \$7,467,958 in both Formula and Competitive Welfare-to-Work (WtW) grants as a result of PY 1998 and PY 1999 grant awards. The Formula grant award of \$3,400,958 provided job assessment, job readiness, on-the-job training (OJT), and job placement and retention services to customers residing in an eight county area: Bryan, Liberty, Long, Glynn, Chatham, Bulloch, Effingham, McIntosh. The Competitive grant award of \$4,067,000 funded only supportive services to the Formula grant customers who resided in Chatham County. However, the objective of both grants was to assist long-term Temporary Assistance for Needy Families (TANF) recipients, and other eligible individuals, transition from welfare to self-sufficiency through employment.

From November, 1998 until December, 2003, these programs have provided much - needed job preparation and supportive services to over 1,300 eligible residents of this community. In addition, these programs have assisted the aforementioned customers in obtaining approximately 500 jobs, the results of which have been far reaching (see Reduction in Chatham County TANF Roles below).¹

Reduction in Chatham County TANF Roles

Year	Families	Adults	Children	Recipients	Benefits
1999	2,606	1,453	4,777	6,230	\$7,080,846
2000	2,019	1,151	3,953	5,104	\$5,366,849
2001	1,665	836	3,155	3,991	\$4,223,753
2002	1,684	882	3,029	3,911	\$4,334,592
2003	1,692	933	3,084	4,017	\$4,456,630
2004	1,537	837	2,762	3,599	\$4,020,825

Since the implementation of these and other similar programs in the area, the TANF roles in Chatham County have been markedly reduced by 66.8%.²

Much of the success of these programs can be attributed to the collaborative partnerships from which these grants were built. In both the Formula and Competitive grants, community –based organizations played an integral part in the planning, implementation, and service delivery to this population. A letter dated October 20, 1999 sent to Mr. Toussaint Hayes, Regional Administrator, U.S. Department of Labor, Employment and Training Administration, of behalf of SeaCoast and the City of Savannah stated: “The Round II solicitation was rife with requests for collaboration, partnerships, sustainability and offered points for said efforts ...The City of Savannah and SeaCoast, in particular,

¹ Chart created from DHR website www.dhr.state.ga.us/portal

² Information obtained from DHR website: www.dhr.state.ga.us/portal . Reduction based on 1997 TANF levels. Calculated from 1997-passage of Welfare Reform Legislation..

devoted significant resources to ensure a unified service strategy and then sought community organizations' response.”

The necessity for community partnerships is clearly outlined in the original grant solicitation published in the Federal Register on April 15, 1998. The following sections distinctly indicate the importance of this collaboration:

- Section III – paragraph 2, “All competitive grant projects will be expected to be an integral part of a comprehensive strategy for moving eligible individuals into unsubsidized employment in a local, **community-based context**. Projects should develop and implement innovative approaches that **enhance a community’s ability** to move eligible individuals into self-sustaining employment . . . and achieve **sustainable improvements in the community’s service infrastructure** for assisting welfare recipients.”
- Section VII – Criteria, “2. ‘Innovation’ (20 points) which shall consider the extent to which the project incorporates new and better strategies for moving welfare recipients into lasting unsubsidized employment leading to economic self-sufficiency. These strategies can include, but are not limited to, **new and better ways that services can be accessed by participants in the local community, new and better ways for local organizations to work together, . . .**”
- Section VII – Criteria, “4. ‘Local Collaboration and Sustainability’ (25 points) . . . the extent to which the **community in the local area** has developed plans and commitments to maintain and expand the capacity to serve the target population with local resources over a sustained period of time (up to 5 points).

Service providers administered unique and innovative services to support eligible customers as they transitioned to self-sufficiency. For example, Lutheran Services of Georgia (LSG) provided non-traditional and sick-child care services to approximately 300 children, allowing over 160 eligible parents the opportunity to obtain and retain unsubsidized employment.

In addition, these programs were successful in transitioning customers from the TANF rolls as well as providing them with the necessary supports to thrive without the support of need-based programs. As identified in the Statement of Fact dated August 4, 2003, approximately 80% of the sample population was not currently receiving or had a pending TANF case as of January, 2003.³

³ Percentage calculated from information identified in Fact 25 of Statement of Fact, August 4, 2003

During the administration of these grants, the City of Savannah and their partner organizations experienced several challenges while implementing the programs described in the grant proposal. A monitoring visit was conducted by the U.S. Department of Labor (USDOL) in August of 2001. The purpose of the visit was to review the programmatic and administrative elements of the grant in an effort to determine the City's ability to successfully continue operations beyond September 20, 2001. Although the monitoring report reflected a number of issues and concerns, the responses by the City were comprehensive. Clarifications were made and background information and supplemental documentation were provided that addressed the various concerns noted in the report. The subsequent extension of the Competitive grant demonstrated the successful resolution of these challenges. Most importantly, participating customers experienced no interruption of services while these issues were being resolved.

Although this draft report points out several areas in which questioned costs have been identified, the City of Savannah contends there were no instances of abuse or misuse of state and federal funds. The objective of both programs was realized and all funding was used to assist over 1,300 eligible customers in their transition to self-sufficiency.

This audit encompassed Welfare-to-Work formula and competitive grants awarded in PY 1998 and 1999 respectively. The U.S. Department of Labor, Office of Inspector General (USDOL/OIG) Audit Team conducted on-site fieldwork from October, 2002 through April, 2003. An initial USDOL/OIG Audit Statement of Facts was issued August 4, 2003. The aforementioned draft report was not issued until late August of 2005: more than two years after cessation of fieldwork activities; two full years after the issuance of a Statement of Facts; and seven years after the initial grant award.

The Government Audit Standards Yellow Book addresses the need for audit report timeliness. The delay in the issuance of this draft report has contributed to difficulty in obtaining information necessary for use in this response as significant staff turnover has occurred at all levels – the City, the partner agencies, and the State and Federal governments. Additionally, systems and practices that were in use throughout the life of the PY 1998 and 1999 grants, and tested during the audit process, have long since been upgraded and favorably tested by the State of Georgia, and auditors of the City of Savannah.

The City of Savannah acknowledges the insights and advice of USDOL. However, we urge you to review your preliminary findings and provide a careful and deliberate evaluation of the rebuttals offered in our response.

Response to Findings

Finding 1a: Savannah did not comply with Federal procurement requirements.

In 1998, the City of Savannah and the Savannah community were extremely concerned about the prospect of hundreds of persons facing the loss of welfare benefits. The Welfare-to-Work Competitive grant was intended to be used in conjunction with the Welfare-to-Work Formula grant to provide participants with the services necessary to make a successful transition from welfare to work. With this concern in mind, the City of Savannah responded to the Welfare-to-Work (WtW) grant solicitation published in the Federal Register on April 15, 1998. The solicitation made clear that successful, competitive grant submissions would be based on community partnerships and service arrangements provided through these partnerships:

- Section III – paragraph 4, “All competitive grant projects will be expected to be an integral part of a comprehensive strategy for moving eligible individuals into unsubsidized employment in a local, **community based context**. Projects should develop and implement innovative approaches that **enhance a community’s ability** to move eligible individuals . . . and achieve **sustainable improvements in the community’s service infrastructure**.”
- Section VII – Criteria, “2. ‘Innovation’ (20 points) which shall consider the extent to which the project incorporates new and better strategies for moving welfare recipients into lasting unsubsidized employment leading to economic self-sufficiency. These strategies can include, but are not limited to, **new and better ways that services can be accessed by participants in the local community, new and better ways for local organizations to work together, . . .**”
- Section VII – Criteria, “4. ‘Local Collaboration and Sustainability’ (25 points) . . . the extent to which the **community in the local area** has developed plans and commitments to maintain and expand the capacity to serve the target population with local resources over a sustained period of time (up to 5 points).
- Section VII – Criteria, “5. ‘Demonstrated capability’ (10 points) which shall consider the extent to which the applicant and **its partner organizations** demonstrate a history of success . . .”
- **Required Content for WtW Competitive Grant Applications Fiscal Year 1998.** Section II. Government Requirements/Statement of Work – Project Narrative. *Service Process* – Describe the comprehensive service process that will be available to participants, and **identify the organizations** which will be involved in providing specific services/activities. . . .”

9/26/2005

City of Savannah
OIG Draft Audit Report Response
Report No: 04-05-004-03-386

Page 4

In developing the local strategy for welfare to work, forums were held in the community and needs were identified. The City completed the WtW formula plan and needed additional resources to provide the mix of services identified in the community forums. Service providers with expertise in the desired areas were contacted and asked to submit a program design and budget for the planned number of enrollments. Technical assistance and technical information were provided for the development of the budgets. The budgets were negotiated for cost reasonableness, allowability, and allocability.

The City of Savannah then assembled a competitive grant proposal that included the community proposals, with narratives and budgets. Total costs, including the community proposal, were incorporated into the overall budget. This grant submission indicated service partnerships and coordinated service provision by those partner agencies. Specifically, the following agencies were included in the City of Savannah's grant submission: Lutheran Services of Georgia, Chatham Area Transit, Goodwill Industries of the Coastal Empire, Housing Authority of Savannah, Small Business Assistance Center, and Work Activity Center.

The Employment and Training Administration (ETA) awarded the City of Savannah a Welfare-to-Work competitive grant in January of 1999 in the amount of \$4,067,000. The period of performance for this grant began on January 4, 1999 and the City proceeded with implementation as delineated the grant submission.

The City of Savannah's position is that the WtW service providers were co-bidders in the proposal and, therefore, the total project was competitively bid as a part of the USDOL selection process. Correspondence from the previous director at SeaCoast dated October 20, 1999 states: "In our communication with other Round I and II Competitive Grant awardees, similar community collaborations were the backbone of their submissions also and those who included provider partners did not competitively procure those partners since we all believe that the described services were being competitively procured by the United States Department of Labor."

The City of Savannah's understanding of federal procurement procedures is illustrated by the following:

- Chatham Area Transit (CAT) was a co-bidder with the grantee. After the contract award, CAT decided that they would be unable to perform the work stated in the contract and wished to subcontract it out. The City of Savannah required that CAT competitively bid the services using Department of Labor contracting procedures.

The first notification that the City of Savannah received indicating there was any problem with the procurement practices came in August of 2001, approximately two and a half years after the grant award. The draft audit report references correspondence dated September 15, 1999, nine months into the grant performance period, in which ETA

denied a request from the City of Savannah to sole source a contract to a service provider not listed in the original grant proposal. It is important to note that this correspondence is very specific in the matter it addressed. There was no reason to assume that this correspondence would be applicable to contracts already awarded to co-bidders identified in the grant proposal.

Additionally, please consider the following points in reference to Finding 1a:

- The draft audit report reference to the correspondence of September 15, 1999 states, “ETA denied Savannah’s request based on established practices described in the WtW Technical Assistance manual that were later codified in TEGL No. 15-01.” It should be noted that USDOL Technical Assistance manuals are not binding policy, but suggested methods of operations and although these practices were codified via TEGL No. 15-01, this TEGL would have no retroactive policy effect on actions undertaken in 1998 and 1999.
- A USDOL/ETA Question and Answer Guidance dated July 28, 1999, issued six months after the grant award stated: “...Listing the names of partners/providers in its grant application does not relieve an applicant from compliance with applicable rules and other requirements...” It further indicated this guidance had been changed on January 29, 1999, after the execution of the competitive grant in question. Clearly, unresolved significant confusion existed between USDOL/ETA and its grantees, specifically its WtW grantees, regarding this issue.
- This confusion is illustrated once again in a letter from ETA to attendees of a Youth Opportunity Grant conference provided to the auditors by the City at the exit conference. This correspondence, dated May 9, 2000, states: “The partners identified in your application/proposal do not need to be competed. Any new services must be procured according to the awardees procurement policies.” Although the auditors did not find ETA’s written guidance regarding the procurement matter to be inconsistent, it is noteworthy that all guidance used by the U.S. Department of Labor, Office of Inspector General (USDOL/OIG) to question the procurement costs are dated after the grant was awarded on January 4, 1999.
- Also of interest, although the audit questions the fair and open competitive selection of the six contracts under the WtW Competitive Grant, there were absolutely no instances of grievance from any potential bidder, complaining of non-access to such grant opportunities, nor any other complaint of unfair procurement practices. This is particularly interesting considering the very public coverage these grant implementations received throughout the Coastal region.
- The draft audit report also references the City of Savannah’s August 21, 2003 response to the USDOL/OIG Audit Statement of Facts document, stating that

when “. . . It was later determined that a competitive process for partners was required. . . appropriate action was taken and all contracts were competitively procured.” This fact was verified in the audit team’s report which indicated that all subsequent contracts were properly procured by separate processes. It should be noted that the City of Savannah has since consistently complied with appropriate procurement procedures, and no other non-competitive procurement issues have been raised during the last six years by USDOL/OIG, USDOL/ETA, or the Georgia Department of Labor.

We respectfully contend that identifying this finding as a questioned cost instead of an administrative finding is inappropriate given similar issues raised by other USDOL/OIG audits. In a number of examples, recommendations made include full corrective action implementation, improved record maintenance, staff training, revision of policies, etc., without the recommendation of questioned costs. (Please see Attachment 1, entitled USDOL Audit Reviews and reference items A, C, and E.).

In summary, the City of Savannah respectfully requests that USDOL/OIG and USDOL/ETA consider the option of viewing this finding in a manner similar to other audits referenced in the attachment previously noted in which the recommendations do not include the recovery of questioned costs. The City of Savannah specifically requests an opportunity to document full implementation of corrective actions that have been proposed or already initiated to address any concerns that may remain in lieu of questioned costs.

Finding 1b: Amounts paid for childcare service exceeded amounts in the WtW Grant Agreement, and other unauthorized childcare services were provided.

The draft audit maintains that the City of Savannah paid childcare providers, through its program operator Lutheran Services of Georgia (LSG), \$606,063 for amounts that exceeded the childcare fees authorized in City’s competitive grant. The \$606,063 included \$354,027 paid by LSG to childcare providers in excess of the grant’s weekly cost per child and \$252,036 paid by LSG to childcare providers who served children who exceeded the grant authorized age limit.

Please consider the following points in reference to Finding 1b.

- In the contract, total budgeted payments for childcare fees were \$537,285.00. In the budgets the line item is classified as, “Vouchers for enrollees for non-traditional hours child care. Infants, toddlers, pre-schoolers, school age children to age 12.” Although the auditor is questioning these costs, we respectfully contend that this issue is not a financial finding, but is an administrative finding. The City of Savannah and LSG provided necessary support services to Welfare to

Work participants so they could successfully transition from welfare to employment.

- The draft audit report notes that policy did not provide for the Department of Family and Children Services (DFCS) to reimburse either Savannah or LSG for interim childcare services. The City of Savannah provided childcare services due to the concern that eligible participants might be denied employment opportunities if childcare was not made available to them. During the period in question, DFCS experienced a series of funding shortages which resulted in clients being placed on extensive waiting lists and /or never receiving services at all. LSG made several attempts to transition clients to childcare services provided by DFCS, however, LSG was always told that no funding was available and that there was a current waiting list for services. With Welfare to Work participants averaging three children each, the continuation of childcare services was critical to participants to remaining employed.
- The draft audit report states that the grant requires “Changes in excess of 20 percent and any changes in wages, salaries, and fringe benefits, Must receive prior written approval from the Grant Officer.” Additionally, the City of Savannah would point out that the grant also states, “Flexibility is allowed within the grant budget, (except wages, salaries, and fringe benefits), provided no single line item is increased or decreased by more than 20 percent.” We respectfully maintain that in a grant budget an increase or decrease of less than 20 percent in an individual cost for a service, within a line item, such as the cost per child as referenced in the audit report, does not have to be approved by the grant officer.
- From the grant’s inception, childcare reimbursement rates were determined based on what was considered to be usual and customary for the City of Savannah. Rates were based on a fee scale devised by Chatham County DFCS.
- Childcare services were provided to children beyond age 12 who had documented disabilities under the sick childcare portion of the contract. These funds were a separate budget line item in the contract. Under sick childcare services there were no age limit specifications (i.e. contract # 02-030A for Sick Childcare rates – All Ages). Services provided for sick children were based on usual and customary childcare services as defined by DFCS which provides subsidized childcare services to children with disabilities up to 18 years old.

We are requesting that this finding be changed from a questioned cost to an administrative finding given the excellent services provided by LSG. (Please see Attachment 2, entitled Lutheran Services of Georgia Support Letter and Attachment 3, entitled Lutheran Services of Georgia WtW Spreadsheet.) Additionally, we respectfully contend the questioning of the cost instead of determining it to be an administrative

9/26/2005

*City of Savannah
OIG Draft Audit Report Response
Report No: 04-05-004-03-386*

Page 8

finding, is inappropriate given similar issues raised in previous USDOL/OIG audits. (Please see Attachment 1, entitled USDOL Audit Reviews and reference items A and B.)

Finding 1c: Savannah reimbursed its contractor a total of \$79,144 in duplicate payments for childcare services.

Although the draft audit report describes these payments as duplicate payments, the payments were actually for daycare slots, and daily rates for weekend services provided to participants. If participants worked any day, or days during the week, (Monday through Friday), day care providers were paid the weekly rate for services rendered. If the participant worked one day on the weekend the day care provider was paid an additional \$25.00 and if the participant worked two days on the weekend the provider was paid \$50.00. This is the usual and customary practice in the childcare industry. It was common for Welfare-to-Work participants to work both during the week and on the weekend due to the 30 hour workweek requirement and the types of jobs in which they were employed. LSG approved any extra days based on participant work schedules, participant pay stub verification, and the 30 hour workweek requirement.

It appears that if LSG staff did incorrectly pay daycare providers for weekly childcare services it was definitely not their intention to do so. This could possibly be attributed to LSG and City of Savannah Workforce staff turn over and the misinterpretation of the Childcare Payment Schedule policy. Any fees that were paid beyond the normal workweek were approved through verification from the participant's job, submission of a work schedule, and through submission of client's pay stub to verify actual hours worked. The LSG Vice-President of Operations referenced in the draft report was not operating out of the local Savannah office and incorrectly stated local policy.

We are requesting that this finding be changed from a questioned cost to an administrative finding due to the steps taken by LSG and City of Savannah Workforce staff to strengthen internal controls. Both policies and procedures have been developed and implemented to ensure that this type of a situation will not occur in the future. Guidance was issued to childcare providers instructing them on the appropriate billing processes and staff was instructed on proper interpretation of LSG policy. Additionally, we respectfully contend the questioning of the cost instead of determining it to be an administrative finding is inappropriate given similar issues raised in previous USDOL/OIG audits. (Please see Attachment 1, entitled USDOL Audit Reviews and reference items A and B).

Finding 1d: Savannah paid its contractor unreasonable costs to provide transportation services to WTW participants.

9/26/2005

*City of Savannah
OIG Draft Audit Report Response
Report No: 04-05-004-03-386*

Page 9

As noted previously, the City of Savannah required Chatham Area Transit Authority (CAT), a co-bidder in the grant proposal, to conduct a competitive bid when they decided that they would be unable to perform the work stated in the contract and wished to contract it out. We respectfully point out that Chatham Area Transit Authority met the Reasonableness of Costs standard in OMB Circular A-87 in its procurement of transportation services.

In 1998 and 1999 Federal Regulations required that a Reasonableness of Costs standard be met. This standard requires a sub-recipient to complete a price or cost analysis for each procurement action. The purpose of the analysis is to verify the reasonableness of the costs in relation to the services to be provided. The cost and/or price analysis must address the following dimensions: allowability of costs, proper allocability of costs, appropriateness of proposed costs, and necessity of the proposed level of expenses in relation to the services to be provided and administrative requirements to be fulfilled.

When a cost analysis is required it must include a Line Item Budget Analysis and at least one additional confirming method to determine the reasonableness of proposed costs. The confirming methodologies used to determine reasonableness of proposed costs are Comparative Analysis, Risk Adjustment, Historical Analysis, and Market Analysis.

In all instances questioned within the draft audit report, the questioned costs were allowable, allocable, appropriate, and necessary as determined during the contract negotiation and execution. The methods used to make such determinations of reasonableness were the Comparative Analysis and the Line Item Budget Review.

Although the USDOL/OIG field auditors attempt to introduce alternative methodologies and comparative sources, the procurement methods used by CAT and the City of Savannah throughout the period in question were allowable and meticulously documented. (Please see Attachment 4, entitled Laidlaw Procurement Documents.)

Given that the City of Savannah's cost and price analysis/contract negotiation system has been tested by the Georgia Department of Labor and found to be fully in compliance since the period in question, we respectfully request the removal of all questioned costs related to this finding.

Finding 1e: Savannah's subcontractor used funds intended for WTW participants to pay its employees' salaries and benefits.

The draft audit report stated that, "eight of the eleven individuals who participated in the program were not WtW participants, but rather employees of Laidlaw." On page five of the contract between The City of Savannah and Chatham Area Transit, (with Laidlaw Transit as the Subcontractor), it states:

“Laidlaw is committed to providing employment opportunities for TANF recipients. In keeping with such commitment, Laidlaw will work with Savannah/Chatham Job Search Assistance Center to identify individuals that may be interested in taking advantage of the employment and potential self-employment opportunities. Should we be unable to identify a sufficient number of eligible vehicle drivers from the TANF recipients, Laidlaw is prepared to utilize existing employees as well as hire new employees to fill the open positions.”

Due to the fact that a sufficient number of eligible van drivers could not be found in the TANF recipient pool (only three Welfare to Work participants qualified), Laidlaw followed the plan outlined in the contract and utilized existing employees and new hires to provide the necessary services. As a result, 16,333 trips were provided to WtW participants (per the draft audit report), enabling them to meet their work requirements.

We respectfully remind USDOL/OIG of the creative flexibilities bestowed upon WtW grantees regarding transportation services. Specifically:

Federal Register: November 18, 1997 (Volume 62, Number 222)
Pages 61587 – 61613/Part II
Department of Labor – Employment and Training Administration
20 CFR Part 645 – Welfare to Work (WtW) Grants; Interim Rule
RIN 1205-AB15

Under this section it was noted, “... the availability of transportation services, to get welfare recipients to work, training, and child care is a significant factor in obtaining and retaining employment.” This section illustrates the importance of ensuring that transportation services exist and meet the needs of the participants. It recognizes that if transportation services do not exist, then the participant can not work. Laidlaw, by using its own employees, provided the transportation services needed in order to connect individuals to jobs.

The City of Savannah respectfully requests that this finding be changed from a questioned cost to an administrative finding.

Finding 1f: Savannah reimbursed its contractor for unauthorized transportation and registration fees:

The draft audit report questioned childcare costs for \$32,860.00 in transportation fees and \$6,900.00 in registration fees. Although these are usual and customary costs associated with providing childcare services, payment for transportation and registration was terminated when LSG was informed that it could no longer pay such fees (per the draft audit report).

9/26/2005

City of Savannah
OIG Draft Audit Report Response
Report No: 04-05-004-03-386

Page 11

We are requesting that this finding be changed from a questioned cost to an administrative finding due to the corrective actions taken by LSG and the City of Savannah. Additional staff reviews and authorizations are now required to be completed prior to payment of submitted invoices. We respectfully contend that questioning the costs is inappropriate given similar issues raised in previous USDOL/OIG audits. (Please see Attachment 1, entitled USDOL Audit Reviews and reference item A.)

Finding 1g: Savannah reimbursed Goodwill Industries of the Coastal Empire, Inc., for costs related to 18 ineligible participants in the WtW Wheels to Work program.

The draft audit questioned \$6,471.00 in auto related expenses paid to non-residents of Chatham County. During the period in question, the City of Savannah operated under the belief that serving participants that were within the City of Savannah's service delivery region, but resided outside of Chatham County was an allowable expense under the grant and assisted in meeting the goals of the program.

On August 1, 2000, a letter formally requesting a modification to the City of Savannah's Welfare to Work Competitive Grant was sent to Mr. Toussaint Hayes, Regional Administrator, USDOL/ETA (please see Attachment 5, entitled Letter). The letter requested that USDOL/ETA allow Wheels to Work participants who resided outside of Chatham County, but worked in the City of Savannah to receive services. Other eligibility requirements still had to be met: all participants had to be Welfare to Work eligible, complete work readiness activities, secure placement in unsubsidized jobs, and retain continued employment for 30 to 90 days.

The request was submitted to USDOL/ETA and we have no record of denial. Goodwill Industries provided excellent services to the out-of-county participants that were assisted. It has been five years since the modification request was filed, therefore, we believe that further corroboration of the surrounding events will be impossible to verify.

We are requesting that this finding be changed from a questioned cost to an administrative finding. Services were provided in good faith and no costs involved in the actual services provided were questioned in the draft audit. Additionally, all participants met all eligibility requirements for WtW programs; they simply resided outside of the County limits. We respectfully contend that questioning the cost is inappropriate given similar issues raised in previous USDOL/OIG Audits. (Please see Attachment 1, entitled USDOL Audit Reviews and reference item D).

Finding 1h: Savannah Exceeded its PY 1999 Welfare to Work Grant Amount by \$359,196.00.

9/26/2005

*City of Savannah
OIG Draft Audit Report Response
Report No: 04-05-004-03-386*

Page 12

The draft audit report states that although the City of Savannah exceeded its PY 1999 Welfare to Work Grant amount by the above mentioned figure, only \$2,947.00 of the \$359,196.00 was determined to be questioned costs. As stated in the draft report, the \$2,947.00 in questioned costs is related to three ineligible individuals. On page 29 of the draft audit report, it states that the three ineligible participants represent approximately 3.7 percent of the eligibility sample. The auditors went on to conclude that this is an acceptable level of compliance with program eligibility requirements.

Due to the immaterial amount of costs being questioned, (\$2,947.00 out of \$7,467,958.00), and the program having an acceptable eligibility requirement level, we are respectfully requesting that this finding be changed from a questioned cost to an administrative finding.

Finding 2a: Savannah reported inaccurate performance data on QSFRs

The City of Savannah encountered many challenges in reporting accurate performance data. Many issues contributed to the problems faced by the City of Savannah in reporting performance data. It is noteworthy that substantial documentation exists outlining the problems associated with performance data collection for WtW grantees. Data collection elements frequently changed at the national level and newly requested data was often simply not collected on participants that enrolled prior to implementation of the modification.

The City of Savannah/Coastal Workforce Services has since implemented a comprehensive monitoring program to address data validation. Participant paper files are routinely compared with information in the GWS to ensure accuracy. Reports generated from information in the GWS are disseminated on a weekly basis for review and verification. We place a great deal of importance on taking the steps necessary to make certain that our performance data is accurate and reliable.

(Please see Attachment 6, entitled Georgia Department of Labor Response for additional information on this finding.)

Finding 2b: Official participant files were missing.

The City of Savannah supplied documentation to the auditors which substantiated the statement that the files had been requested during a previous audit. The One-Stop Center supplied copies of supporting documentation detailing their attempts to retrieve the files. The dates on the correspondence provided verified that the discovery of the missing files was made prior to the auditor's request.

Finding 2c: WtW participants were misclassified.

Savannah took corrective action immediately upon being notified of the problem by the auditor and participants were properly reclassified.

The City of Savannah understands that proper classification of participants is critical and routinely reviews its policies and procedures to ensure that stringent compliance with requirements is maintained.

Finding 2d: Participant eligibility was within an acceptable level.

The City of Savannah is in agreement with this finding.

Conclusion

The formula and competitive Welfare-to-Work grants awarded to the City of Savannah in PY 1998 and PY 1999 were successful in assisting TANF recipients and other eligible individuals transition to self-sufficiency. The services provided through these grants have assisted the customers in obtaining and retaining self-sustaining employment. Over 80% of customers sampled during this audit had not returned to the TANF roles as of January, 2003. This accomplishment solidifies the importance of these and similar community-based programs in improving the quality of life for all participants and, ultimately, the entire community.

All grant funds were expended to support allowable Welfare-to-Work funded activities as identified in the Federal Register. These funds supported the transitional activities of eligible customers. In addition, grant funds were expended solely for the purpose of providing allowable services and activities that assisted the customers in obtaining fulltime, unsubsidized employment.

As discussed earlier in our response, the untimely nature of the issuance of the draft report has required the City to respond to many issues which have already been addressed. The Georgia Department of Labor Compliance Program Reviews conducted in PY 1997 and 1998 through the most recent PY 2004 Compliance Review have identified no related, significant or unresolved issues regarding the City of Savannah's procurement and contracting systems relative to the Workforce Investment Act (WIA) and WtW grants.

Although USDOL/OIG auditors allege deficiencies as early as January, 1999, we respectfully note that:

- a. Two additional formula grants were awarded to the City of Savannah in September, 1999 and August 2002, indicating the State of Georgia's confidence in the City of Savannah's systems.
- b. In May of 1999, the Federal Transit Administration awarded the Chatham Area Transit Authority \$250,000.00 in federal funds to match the like amount of competitive WtW funds received by the city of Savannah in January, 1999. This indicates Federal confidence in the City of Savannah's systems.
- c. No questioned costs contained in the draft report were a result of fraud or abuse.

In summary, the City of Savannah and the Savannah community were concerned about the prospect of hundreds of persons in our community facing the loss of welfare benefits. The Welfare-to-Work Competitive grant was intended to provide Savannah residents with services necessary to make a successful transition from welfare to work. USDOL, in

the grant solicitation, made clear that obtaining a competitive grant would be based on grantees working in partnership with service providers in their community. The City of Savannah assembled a competitive grant with community partnerships; the grant submission clearly showed the service providers, specifically described the services, and provided budgets and service arrangements for program services. The City of Savannah was awarded the grant and carried out the program in accordance with the information submitted to USDOL.

Although we have respectfully submitted summarized rebuttals to each of the findings identified in the Draft Report, we are prepared to respond to USDOL/OIG and USDOL/ETA with a more detailed level of response providing all supporting documentation, to any extent that may be required. As per our rebuttal we are requesting that findings **1a, 1b, 1c, 1e, 1f, 1g** and **1h** be changed from questioned costs to administrative findings. We also request that finding **1d** be removed from the draft audit.